

THE STATE OF THE NATION'S HOUSING

2021



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

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HARVARD GRADUATE SCHOOL OF DESIGN | HARVARD KENNEDY SCHOOL

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1 EXECUTIVE SUMMARY

Even as the US economy continues to recover, the inequalities amplified by the COVID-19 pandemic remain front and center. Households that weathered the crisis without financial distress are snapping up the limited supply of homes for sale, pushing up prices and further excluding less affluent buyers from homeownership. At the same time, millions of households that lost income during the shutdowns are behind on their housing payments and on the brink of eviction or foreclosure. A disproportionately large share of these at-risk households are renters with low incomes and people of color. While policymakers have taken bold steps to prop up consumers and the economy, additional government support will be necessary to ensure that all households benefit from the expanding economy.

SOARING PRICES AMID HIGH DEMAND AND TIGHT SUPPLY

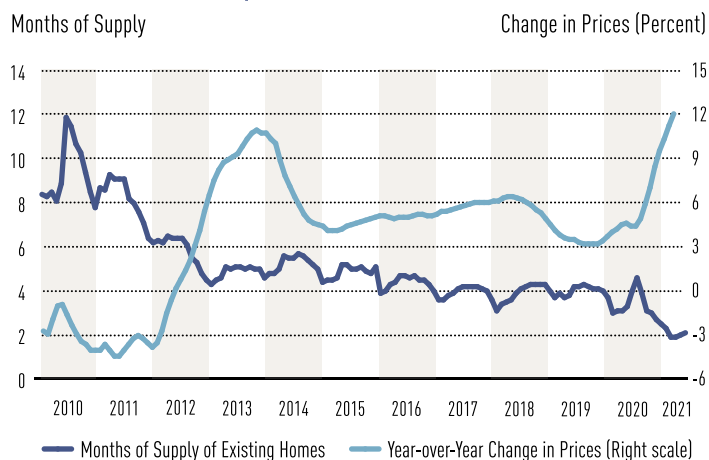
Home sales bounced back quickly from a mid-2020 pause. Following a 26 percent drop in May, sales of existing homes were up 20 percent year over year on average from September 2020 through February 2021. Sales of new single-family homes rebounded even earlier and faster, increasing by more than 30 percent on average from June through February. For 2020 as a whole, existing home sales rose 5.6 percent and new single-family home sales jumped 20.4 percent. On the strength of these gains, total home sales were at their highest level since the peak of the housing boom in 2006.

The homebuying binge occurred despite historically tight supply. Inventories of existing homes for sale were already low heading into 2020, and the pandemic made matters worse by discouraging potential sellers from putting their homes on the market. From March 2020 through March 2021, the existing home inventory shrank by about 30 percent, leaving just 1.05 million homes for sale. Months of supply for existing homes, measuring how many homes are available at the current sales rate, also fell steadily from 3.9 months on average in 2019 to 3.1 months in 2020, and dipped below 2.0 months in late 2020 for the first time ever (**Figure 1**). Median time on the market also hit a record low in March at 18 days.

The combination of robust demand and limited supply lifted home prices to their fastest pace in over a decade. According to the S&P CoreLogic Case-Shiller Home Price Index, home prices rose 13.2

FIGURE 1

With Inventories at Record Lows, Existing Home Prices Continue to Head Up



Note: Months of supply measures how long it would take the number of homes on the market to sell at the current rate, where six months is typically considered a balanced market.
Source: JCHS tabulations of National Association of Realtors (NAR), Existing Home Sales; S&P CoreLogic Case-Shiller US National Home Price Index.

percent nationally in March 2021, up from 4.2 percent on average in the first quarter of 2020 and 3.5 percent on average throughout 2019. The FHFA House Price Index shows a similarly large year-over-year increase in the first quarter of 2021, with prices up by double digits in 85 of the 100 large metro areas and divisions that it tracks. The

largest price gains were in rapidly growing Western states, led by a 28 percent jump in Boise and 22–23 percent increases in Austin and Tacoma. But several markets in the Northeast and Midwest were also among the top ten metros for home price growth, including Bridgeport and Grand Rapids (both up 17 percent).

These outsized increases have raised concerns that a home price bubble is emerging. However, conditions today are quite different than in the early 2000s, particularly in terms of credit availability. The current climb in house prices instead reflects strong demand amid tight supply, helped along by record-low interest rates. Indeed, the rate on a 30-year fixed mortgage averaged less than 3.00 percent from July 2020 through February 2021, with another dip below 3.00 in May.

Low interest rates and rapidly rising prices have in turn given a substantial boost to new residential construction. Single-family housing starts hit 1.0 million units at a seasonally adjusted annual rate in August 2020 and continued to exceed that pace through the first quarter of 2021. If sustained, this would be the first year that single-family starts have topped the one-million mark since 2007.

Although part of the answer to the nation's housing shortage, new construction can only do so much to ease short-term supply constraints. To meet today's strong demand, more existing single-family homes must come on the market. The widespread availability of COVID-19 vaccines and resumption of more normal social interactions may in fact encourage more homeowners to sell. Still, with interest rates so low and home sales at such a furious pace, prices are likely to continue their rapid ascent in the near term.

HOMEOWNERSHIP RATES RISING, BUT NOT FOR ALL

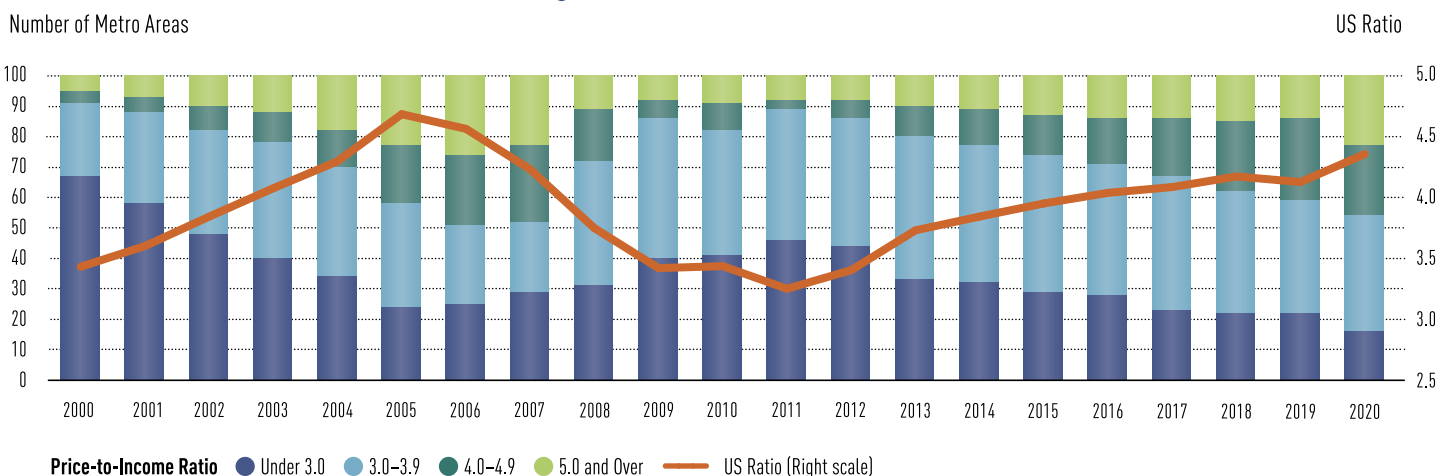
The national homeownership rate remains on an upward trajectory, driven by the aging of more millennials into their 30s and the strong income gains among these young adults. Census Bureau estimates for the first quarter of 2021 show a 0.3 percentage point year-over-year increase in homeownership, which comes on the heels of a 1.2 percentage point rise between the post-recession low in 2016 and 2019.

Younger households continued to lead the growth in homeownership rates, with a 0.8 percentage point year-over-year increase in the first quarter of this year. Indeed, rates for households under age 35 were up 2.2 percentage points in 2016–2019, coinciding with an 8.0 percent rise in real incomes among renters in this age group. Households aged 35–44 also posted a substantial 0.5 percentage point increase in homeownership in early 2021, building on a 1.5 percentage point gain in 2016–2019.

However, rapidly rising home prices mean that the upfront costs of homeownership are also increasing, particularly in markets where bidding wars have become commonplace. As it is, home price gains continued to outrun income growth last year, lifting the national price-to-income ratio to 4.4—the highest level since 2006. Two decades ago, the ratio was less than three times income in two-thirds of the 100 largest metros and above five times income in only a handful of markets. In 2020, price-to-income ratios were under 3.0 in only 16 metros and above 5.0 in 23 metros (**Figure 2**). With house prices representing such large multiples of income, accumulating the downpayment and closing costs to buy homes could take years, particularly for younger households facing the twin burdens of high rents and significant student debt.

FIGURE 2

Home Price-to-Income Ratios in an Increasing Number of Metro Areas Are Back Near Mid-2000s Levels



Notes: Price-to-income ratios are for the 100 largest metro areas by population. Income data for 2020 are based on Moody's Analytics forecasts.
Source: JCHS tabulations of NAR, Metropolitan Median Area Prices; Moody's Analytics estimates.

Although narrowing, differences in homeownership rates between households of color and white households remain substantial. According to the latest Housing Vacancy Survey, the Black-white homeownership gap stood at 28.1 percentage points in the first quarter of 2021, an improvement from the record high of 30.8 percentage points in 2019 but still large by historical standards. Indeed, the Black-white gap held under 27 percentage points for most of the 1980s and 1990s. Meanwhile, the Hispanic-white gap decreased by 1.8 percentage points between 2019 and the first quarter of 2021, to 23.8 percentage points.

Income inequality contributes to the disparities in homeownership, with the median household income of white renters (\$45,000) in 2019 some 40 percent higher than that of Black renters (\$32,100) and 7 percent higher than that of Hispanic renters (\$42,000). But even controlling for these differences, the homeownership gaps are still wide. For example, among households earning 50–80 percent of area median income, just 38 percent of Black, 43 percent of Hispanic, 56 percent of Asian, and 53 percent of Native American households owned homes, compared with 64 percent of white households.

Accumulating the savings needed for downpayment and closing costs is difficult for most first-time buyers, but especially for renter households of color. According to Survey of Consumer Finances data, the median net wealth of Black renters was just \$1,830 in 2019—a fraction of the \$6,000 median for Hispanic renters and \$8,300 median for white renters. In addition, only 8 percent of Black renters and 12 percent of Hispanic renters had more than \$10,000 in cash savings, compared with 25 percent of white renters. Moreover, studies have found that white homebuyers are four times more

likely on average than Black homebuyers to receive help from parents in coming up with a downpayment.

With interest rates near historic lows, downpayment assistance programs would give a substantial lift to homeownership rates among households of color with insufficient savings. As a recent Joint Center analysis concluded, a \$15,000 income-targeted assistance program could help as many as 1.0 million Black renters and 470,000 Hispanic renters buy homes. When coupled with homebuyer education and counseling to overcome information and credit barriers, this support has the potential to reduce the Black-white homeownership gap by 12 percentage points and the Hispanic-white gap by 4 percentage points.

RENTAL MARKETS STABILIZING AFTER SLOWDOWN

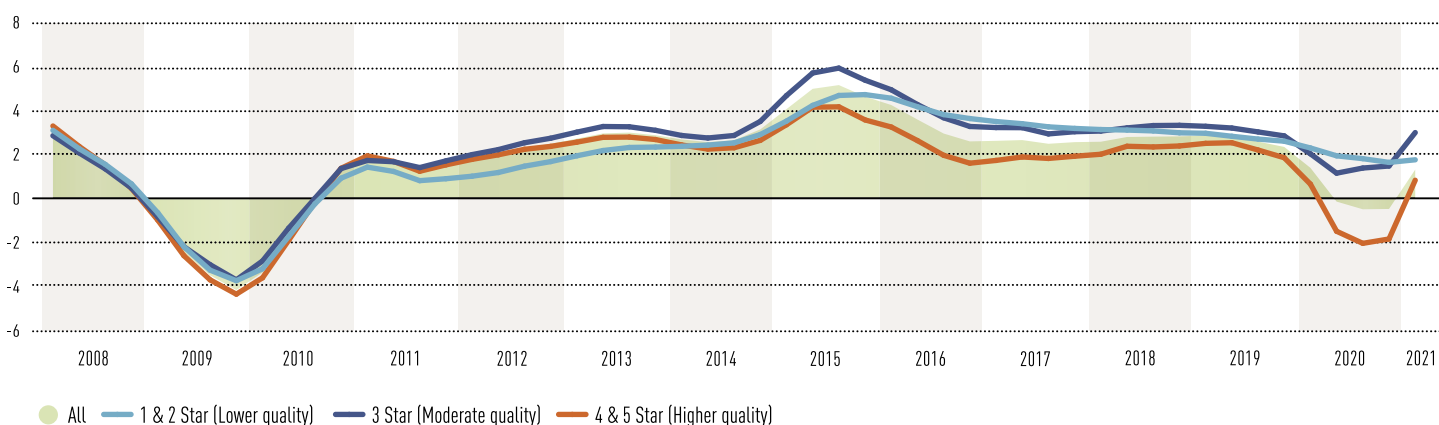
Just as rental demand cooled in urban areas last year, it heated up in suburban markets. According to CoStar data on the professionally managed stock, vacancy rates in prime urban neighborhoods soared from 7.2 percent in the first quarter of 2020 to 10.0 percent in the fourth quarter, before edging back down to 9.6 percent in the first quarter of 2021. At the same time, vacancy rates in prime suburban areas also started out at 7.2 percent early last year, but shrank to 6.3 percent by the end of 2020 and further to 6.0 percent in early 2021.

Since many higher-quality rentals are located in prime urban areas, vacancy rates in this segment rose from 10.1 percent in the first quarter of 2020 to 10.5 percent in the fourth, then receded to 9.9 percent early this year. As a result, rents for higher-end units were down 1.9 percent year over year at the end of 2020 before recovering to an 0.8 percent increase in the first quarter of 2021 (**Figure 3**).

FIGURE 3

Following a Dip Early in the Pandemic, Rents for Higher-Quality Apartments Are Again on the Rise

Annual Change in Rents (Percent)



Note: Apartment quality is based on the CoStar Building Rating System for professionally managed market-rate apartments in buildings with five or more units.
Source: JCHS tabulations of CoStar data.

However, the markets for moderate- and lower-quality apartments remained tight, with little change in vacancies over this period. Rent growth for moderate-quality apartments eased from 2.0 percent to 1.5 percent in 2020, but then jumped to 3.0 percent in the first quarter of 2021—an even faster pace than before the pandemic. In contrast, rent increases for lower-quality apartments slowed from 2.3 percent in early 2020 to 1.8 percent in early 2021.

At the metro level, rents in the first quarter of 2021 were down in 25 of the 150 markets tracked by RealPage. The sharpest declines were primarily in high-cost markets such as San Francisco (-20 percent), San Jose (-16.5 percent), New York (-15 percent), and Boston (-8 percent). At the same time, rents increased by more than 2.0 percent in 94 metros, primarily lower-cost markets in the West and South, with especially large gains in Boise (11 percent) and Fayetteville (10 percent).

The firming of rents and vacancy rates in prime urban areas and in the higher-quality segment in early 2021 suggests that the strengthening economy and easing of pandemic-related restrictions will make the dip in rental demand only temporary. The latest uptick in multifamily construction reflects that view, with starts of units in buildings with five or more apartments rising from a 342,000 annual rate in the fourth quarter of 2020 to a 429,000 annual rate in the first quarter of 2021. If sustained, this year would be the first time that starts in this segment have exceeded 400,000 units since 1987.

THE WORSENING CHALLENGE OF RENTER COST BURDENS

Even after ten years of economic expansion and the lowest unemployment rate in decades, the share of renter households with cost burdens in 2019 was down just four percentage points from the 2011 high. Some 20.4 million renters (46 percent) paid more than 30 percent of their incomes for housing that year, including 10.5 million (24 percent) severely burdened households that paid more than half of their incomes for rent.

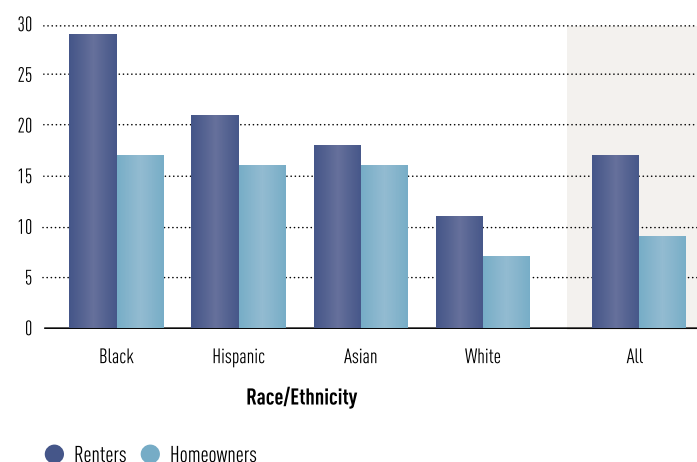
Although long the plight of lowest-income renters, cost burdens have moved up the income ladder. More than 80 percent of renters earning less than \$25,000 were cost burdened in 2019, with a large majority severely burdened. Remarkably, 70 percent of renter households earning between \$25,000 and \$34,999 and nearly 50 percent of renters earning between \$35,000 and \$49,999 were also at least moderately burdened. The racial and ethnic disparities are stark, with 54 percent of Black and 52 percent of Hispanic renters having at least moderate burdens, compared with 42 percent of both white and Asian renters.

Renters in general, and lowest-income renters in particular, have taken the brunt of the economic fallout from the pandemic. The Census Bureau's Household Pulse Surveys show that more than

FIGURE 4

Households of Color and Renters Are More Likely to Have Fallen Behind on Monthly Housing Payments

Share of Households Behind on Housing Payments (Percent)



Notes: Households behind on rent or mortgage reported that they were not caught up at the time of survey. Black, white, and Asian households are non-Hispanic. Hispanic households may be of any race.
Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, January–March 2021.

half of all renter households had lost income between March 2020 and March 2021. Not surprisingly, 17 percent were behind on rent early this year, including nearly a quarter of those earning less than \$25,000 and a fifth of those earning between \$25,000 and \$34,999. Racial disparities are evident here as well, with 29 percent of Black, 21 percent of Hispanic, and 18 percent of Asian renters in arrears, compared with just 11 percent of white renters (**Figure 4**).

The shares of renters behind on housing payments vary widely across the country. States with the highest concentrations of renters in arrears are in the Southeast, with Mississippi topping the list at 27 percent, followed by Delaware and Louisiana, both at 25 percent. The lowest shares are in the Midwest and Mountain West states, including Idaho, North Dakota, Montana, and Utah, where less than 12 percent of renters were behind on their housing payments in early 2021.

With so many renters in financial distress, there are serious concerns about an impending wave of evictions. So far, substantial federal relief through stimulus payments, expanded unemployment benefits, and other funding, along with federal and state eviction moratoriums, have prevented large-scale displacement. However, if the federal moratorium ends in July as scheduled (or earlier due to successful legal challenges), staving off a substantial increase in evictions and homelessness will depend on whether the latest round of assistance reaches at-risk households in time.

Even before the pandemic, the number of people experiencing homelessness was on the ascent. In January 2020, HUD put the

count at 580,000 people, up nearly 13,000 from a year earlier and up more than 30,000 from the post-recession low in 2016. The rising incidence of unsheltered homelessness drove the overall increase, with a jump of 50,000 since 2016. Most of the uptick in people experiencing homelessness is centered in Western and Sunbelt states, particularly Arizona, California, Texas, and Washington.

Fortunately, governments at all levels recognized early in the pandemic that people experiencing homelessness were especially at risk not only of infection, but also of dying from COVID-19 given their underlying health conditions. Among the most effective responses to this public health threat was the conversion of vacant hotels and motels into non-congregate shelters. In some cases, these conversions have become permanent, creating new capacity for emergency homeless shelters and supportive housing. The American Rescue Plan of 2021 allows for the use of funding for these same purposes, helping to stem the rise in homelessness.

ENDURING PRESSURES AMID THE RECOVERY

Spurred by generous federal spending packages and the wide availability of COVID-19 vaccines, the US economy is steadily recovering. In the first four months of 2021 alone, the economy added more than 1.3 million jobs, reducing the national unemployment rate to 6.1 percent. Even so, there were 7.6 million fewer jobs in February than a year earlier, and unemployment rates remained distressingly high for Black (9.7 percent) and Hispanic workers (7.9 percent), as well as for those with less than a high school diploma (9.3 percent).

In December 2020 and again in March 2021, the federal government stepped in to support households that had fallen behind on rent with more than \$50 billion in assistance. While that level of aid appears commensurate with current need, a key concern is whether state and local governments will be able to quickly and effectively distribute this assistance. Some state and local programs funded in part by last year's CARES Act failed to reach many in need because of difficult application processes, restrictive eligibility requirements, and a lack of consumer awareness about available support. Lessons learned from that experience will hopefully make distribution of new funding under the American Rescue Plan more efficient.

Homeowners who faced COVID-related hardship have also received support in the form of loan forbearance and a ban on foreclosures. This protection, allowing borrowers to defer or reduce their monthly payments for up to 18 months, was extended to the 70 percent of homeowners with federally backed loans. As of March 2021, a majority of the 7.1 million loans that had entered forbearance since the start of the pandemic had left that status. Of these loans, payments on two-thirds were again current and another fifth were paid off. A small share (8 percent) of borrowers were still delinquent but

engaged in loss mitigation with their lenders, while 3 percent were delinquent and not working on a resolution.

But the outcomes are uncertain for the 2.3 million borrowers in forbearance that have yet to resume their mortgage payments. A simple solution for many of these homeowners would be to extend the terms of their mortgages to make up for the missed payments. But the situation is more complicated when the accumulated deficit of mortgage, property taxes, and insurance payments, on top of the outstanding loan balance, exceeds the value of the home. And even in cases where some equity remains, borrowers may not be able to resolve their accumulated debt by selling their homes if that equity does not cover sales costs (generally about 10 percent of a home's value).

Black Knight estimates that, of the borrowers taking advantage of the full 18 months of forbearance, some 22 percent would have less than 10 percent equity after factoring in these deficits. The shares of borrowers in this situation but with loans backed by the Federal Housing Administration and Veterans Administration are even higher, at 36 percent. Although the American Rescue Plan includes \$10 billion in support for homeowners in such circumstances, it is unclear whether this aid will be available or sufficient to safeguard some borrowers from foreclosure or forced sales once forbearance ends. For most of these borrowers, that deadline is July 2021.

For the many households that had to tap savings or go into debt to cover lost income last year, the impacts of the pandemic will linger well into the future. A Joint Center review of surveys conducted over the past year found that about a quarter of the renters with COVID-related job losses reported that they had substantially depleted their savings, another quarter had borrowed from families and friends, and a tenth had turned to payday or personal loans. Even assuming they regain their financial footing, these households will have fewer resources to draw on whether for everyday needs, emergencies, or for a downpayment on a home. Recovering from the devastating effects of the pandemic will be harder yet for those who have lost loved ones to COVID-19 or are themselves suffering from the long-term debilitating effects of the virus.

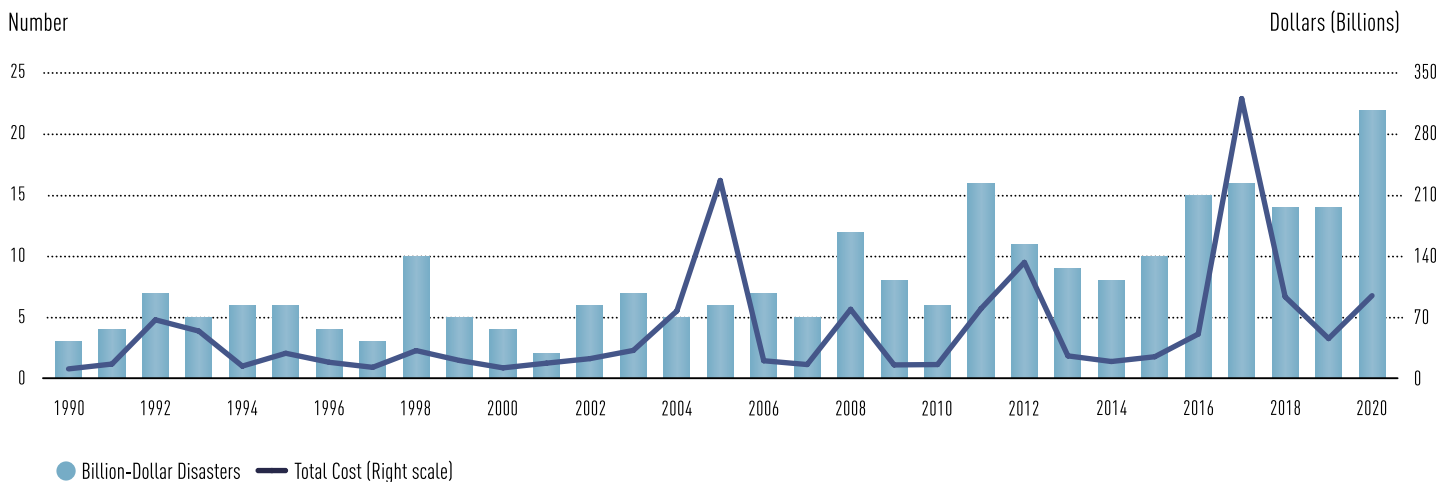
THE NATION'S CRITICAL NEED FOR HOUSING INVESTMENT

After years of relatively weak residential construction, the median age of the US housing stock increased sharply from 34 years in 2007 to 41 years in 2019. Older housing generally needs more upkeep than newer housing. Indeed, a 2019 analysis by the Federal Reserve Bank of Philadelphia and PolicyMap found that 45 percent of homes built before 1940 were in need of repair, compared with 26 percent of homes built in 2000 or later.

This study also estimated that more than a third of all occupied homes in 2017 had structural, plumbing, electrical, and heating

FIGURE 5

The Number of High-Cost Disasters Set a New Record in 2020



Notes: All costs are adjusted to 2020 dollars using the CPI-U for All Items. The direct costs of disasters include physical damage to buildings, material assets, vehicles, infrastructure, and agriculture, as well as the costs of business interruption, wildfire suppression, and disaster restoration. Source: JCHS tabulations of National Oceanic and Atmospheric Administration (NOAA), Billion-Dollar Weather and Climate Disasters.

problems, leaks, and/or pest infestations, and put the total cost of addressing these needs at \$127 billion. This figure does not include the costs of improving indoor air and water quality or removing lead contamination, which all pose serious threats to human health and safety. Moreover, it is likely that overall repair needs are even higher today, given that many homeowners had to put off these types of expenses during the pandemic.

Among the homes most in need of repair are manufactured housing units, units occupied by renters, and those occupied by Black, Hispanic, and Native American/Alaskan Native households, as well as by people with disabilities. Public housing is an important case in point. National Association of Housing and Redevelopment Officials estimated that the backlog of capital funding needed to address deficiencies in the stock of roughly one million units was \$70 billion in 2019 and accruing at \$3.4 billion per year.

Climate change has made improving the energy efficiency and resiliency of housing ever more urgent. Given that residential energy use accounts for a fifth of the nation's greenhouse gas emissions, retrofitting older homes with energy-efficient systems would help to reduce the nation's reliance on fossil fuels. These improvements also carry potential cost savings for low-income homeowners and the millions of cost-burdened renters who pay for utilities out of pocket.

Ensuring that homes can withstand extreme weather events is a related priority. In 2020, the US experienced a record 22 distinct billion-dollar disasters (Figure 5). As these events increase in both intensity and frequency, they pose an ever-growing threat to homes across the country. Indeed, NOAA reports that the average annual cost of billion-

dollar disasters has already escalated from \$27 billion in the 1990s to \$81 billion in the 2010s. Beyond disaster recovery, additional federal support is needed for mitigation programs that support at-risk communities in efforts to improve the resiliency of their housing stocks.

Another unmet housing need is for home modifications that enable older households to remain in place as they age. Within the next two decades, the number of households headed by people age 75 and over is projected to double from 14 million to 28 million. At that stage of life, mobility typically becomes more limited. At last measure in 2011, however, only 3.5 percent of the US housing stock provided three critical accessibility features—a no-step entry, single-floor living, and extra-wide doorways and halls—that help households with reduced mobility to live safely and comfortably in their homes. Given that many of these home modifications would be beyond the means of most low- and moderate-income homeowners and rental property owners, expanded tax credit or grant programs would be necessary to subsidize the costs.

The American Jobs Plan would address many of these needs, proposing \$213 billion to construct, preserve, and retrofit two million housing units, including retrofitting the homes of low- and moderate-income owners to improve energy efficiency and resiliency. The proposal also includes \$40 billion to repair and update the energy efficiency of public housing. While the fate of this proposal is uncertain, there can be no question about the need for substantial investments in the nation's housing stock to reduce the residential sector's contributions to greenhouse gas emissions, safeguard homes and residents against severe weather, preserve the existing supply of affordable housing, and prepare for a rapidly aging society.

THE OUTLOOK

The unprecedented events of 2020 both exposed and amplified the impacts of unequal access to decent, affordable housing. For households with secure employment and good-quality housing, their homes provided a safe haven from the pandemic. But for the millions of households that lost income and are still struggling to cover their housing costs, their situations are anything but secure. These disparities are likely to persist even as the economy recovers, with many lower-income households slow to regain their financial footing and facing possible eviction or foreclosure.

At the same time, though, demand for homeownership is likely to remain robust as the huge millennial generation continues to move through the prime ages for forming households and buying homes. Although the supply of existing homes for sale is at a record low, the subsiding pandemic and resumption of more normal activity should encourage more owners to put their homes on the market. An expanded supply of for-sale homes would help to slow the meteoric rise in house prices, but new construction also has to pick up substantially to keep homeownership relatively affordable.

Certain impacts of the pandemic on housing markets are probably temporary—most notably, the drop in high-end urban rental demand. Indeed, early signs suggest that the reopening of offices, universities, restaurants, and other amenities is already bringing renter house-

holds back to city centers. However, the growing demand for suburban and exurban living may be a more enduring shift, particularly if working from home becomes common practice. If freed from the requirement to commute every day, many more households will seek out lower-cost housing away from employment centers.

In the longer term, impending demographic changes cloud the housing outlook. Falling birth rates, sharply lower immigration, and higher-than-expected mortality rates have already left population growth at its lowest level in 100 years. Although this slowdown may help to alleviate the current imbalance between housing demand and supply, it also has serious implications for the broader economy. To sustain vibrant housing markets, policymakers must take measures now to reinvigorate population growth through increased immigration, promote higher birth rates through support for working families, and reduce the drag on economic growth from income and wealth disparities.

The Biden Administration has proposed a major increase in federal funding for affordable housing that would move the nation closer to achieving those goals. The plan would substantially expand support for renters and homeowners alike, addressing the need for a broader and stronger housing safety net while also closing the racial and ethnic disparities in housing markets. The profound disruptions of the past year have made clear how urgent these bold steps have become.

The homebuying market remained hot even as the COVID-19 pandemic moved into its second year. Sales of both new and existing homes soared in early 2021 amid low interest rates and strong demand. In combination with record-low inventories, the homebuying frenzy has helped to push up home prices by double digits. Rents have also started to recover from last year's drop. After years of underbuilding, housing developers have finally responded to favorable market conditions, with production increasing in line with projected household growth.

CONTINUING SURGE IN HOME SALES

Despite a sharp drop at the onset of the pandemic, home sales bounced back quickly in 2020. Several factors helped to buoy sales, starting with record-low mortgage interest rates. The pandemic itself drove up demand for more private living space, particularly among the higher-income households that were least affected by the economic downturn. The aging of the millennial generation also helped by lifting the number of households in their peak homebuying years.

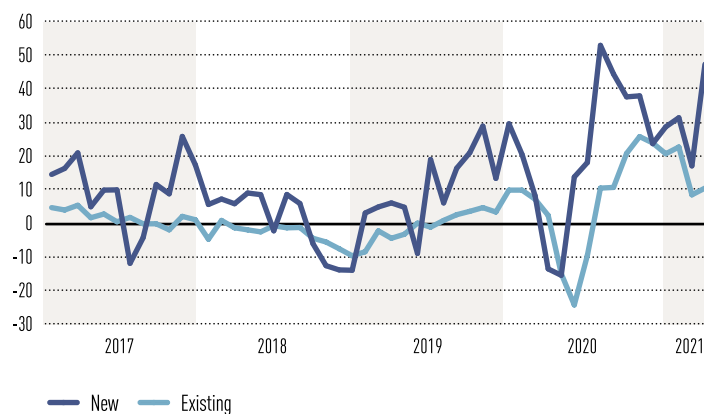
Even after a 26 percent year-over-year plunge in May, sales of existing homes increased 5.6 percent for the year, to 5.64 million units. Single-family home sales were especially strong, up 6.3 percent to 5.07 million units (**Figure 6**). Meanwhile, condo and co-op sales fell slightly for the third straight year, to 578,000 units. Sales rose across the country, with growth in the South (7.4 percent) and the Midwest (6.4 percent) far outpacing increases in the West (2.7 percent) and Northeast (1.4 percent). Existing home sales continued to gather steam in the first quarter of 2021, up 15 percent on average.

Sales of newly built single-family homes rebounded even more rapidly. Following a 16 percent year-over-year drop in April, new home sales jumped 53 percent in July, to 972,000 units at a seasonally adjusted annual rate. For 2020 as a whole, sales of new single-family homes were up 20.4 percent, to 822,000 units—the highest mark since 2006. New home sales were strong across all regions of the country, increasing 29 percent in the Midwest, 23 percent in the Northeast, 20 percent in the West, and 19 percent in the South. Robust growth continued in the first quarter of 2021, with seasonally adjusted single-family sales averaging 32 percent gains and running at an annual rate of 921,000 units.

FIGURE 6

After a Brief Pause Early in the Pandemic, the Pace of Home Sales Has Been Brisk

Year-over-Year Change in Single-Family Home Sales (Percent)

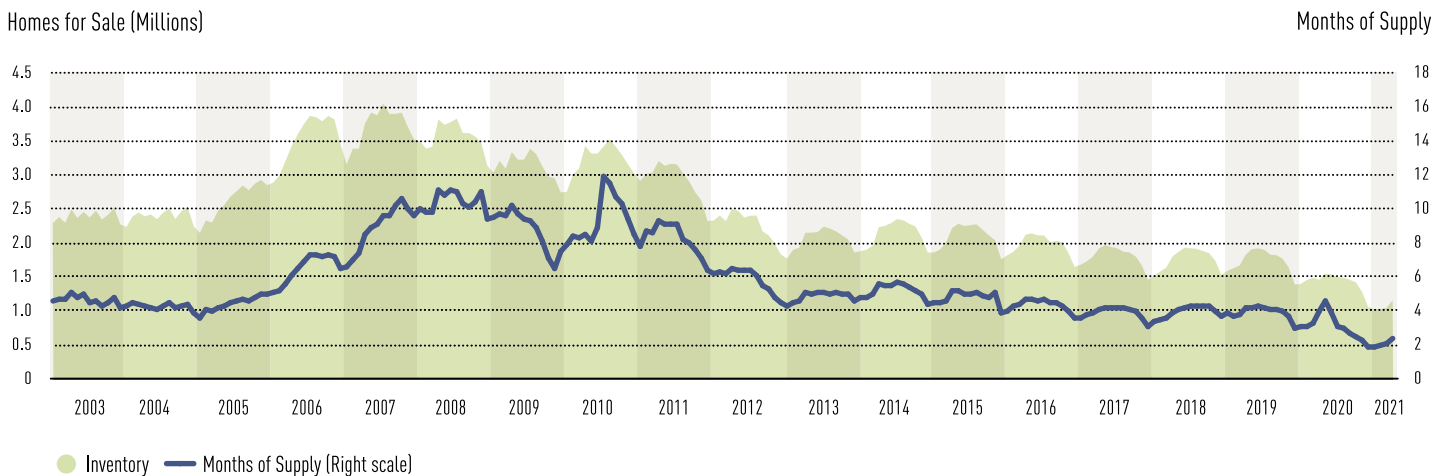


Source: JCHS tabulations of NAR, Existing Home Sales; US Census Bureau, New Residential Sales.

Metro-level home sales followed a similar pattern. Early in 2020, slightly more than half of the 95 large markets tracked by Zillow posted year-over-year increases in sales. But after stumbling in April and May, sales were on the rise in fully 89 metros by the end of the year. Indeed, growth exceeded 50 percent in five markets, including Baltimore (63 percent), Milwaukee (57 percent), and New Haven (53 percent). The six metros with year-over-year declines included Wichita (down 17 percent) as well as Ogden and Boise City (both

FIGURE 7

Inventories of Homes for Sale Fell to a Record Low in Early 2021



Note: Months of supply measures how long it would take the number of homes on the market to sell at the current rate, where six months is typically considered a balanced market.
Source: JCHS tabulations of NAR, Existing Home Sales.

down 1 percent), where sales growth was especially constrained by limited supply.

While still a small share of the market, sales of second homes also surged since the start of the pandemic. These purchases are important because they take inventory off the market without adding to the supply of primary homes for sale. Redfin reports that mortgage rate locks on second home purchases were up more than 80 percent year over year every month from June 2020 through April 2021—about twice the rise in those on primary home purchases. National Association of REALTORS® (NAR) data echo the strength of demand, indicating that 68 percent of vacation homes on the market in September 2020 sold in less than one month. On average, only 20–40 percent of vacation homes sold that quickly from 2017 through early 2020.

INCREASINGLY ACUTE SHORTAGE OF HOMES FOR SALE

The supply of existing homes for sale has never been tighter. By NAR's count, there were 1.03 million existing homes on the market in February 2021, down from an already low 1.46 million a year earlier (**Figure 7**). This amounts to a 29 percent decline in just one year and a 37 percent drop in two years. Single-family homes accounted for only 870,000 of the existing units available—the lowest level in records dating back to 1982.

The decline in the supply of new single-family homes for sale was somewhat more modest. After starting the year at 329,000 units, the number of new homes available bottomed out at 283,000 units in August—a year-over-year drop of 13 percent. New home inventory, which includes homes under construction, picked up to more than

300,000 units from December 2020 through March 2021 as housing production increased. Even so, supplies were still down 8 percent on average from the same period a year earlier.

Measured by months of supply (how long it would take for homes on the market to be sold at the current sales rate), inventories of existing homes for sale fell from 3.0 months in December 2019 to 1.9 months in December 2020. The supply of single-family homes was even tighter at just 1.8 months, marking the first dip below 2.0 months since recordkeeping began in the early 1980s. As a rule of thumb, a balanced market has about 6.0 months of available inventory.

Supply constraints are nearly universal. Inventories in 87 of the 95 markets tracked by Zillow fell year over year in December 2020, up from 31 markets in December 2019. The number of homes available for sale fell by more than 30 percent in 14 of these metros, with the largest drops in mid-sized markets in the West, including Provo (43 percent) and Boise (40 percent). Declines were also severe in certain metros in the South, ranging from 34 percent to 36 percent in Augusta, Columbia, Jackson, and Raleigh. While still historically tight, for-sale inventories increased in some higher-cost markets, especially those on the West Coast, including San Francisco (50 percent), San Jose (45 percent), and Seattle (16 percent).

The pandemic is partially to blame for such tight conditions. As the COVID-19 virus spread in the spring, many potential sellers pulled their homes off the market while others delayed listing their homes for sale. Because of the limited inventory, any home that went on the market sold almost immediately. Indeed, the typical home listed for

sale on Zillow was available for 14 days in December before a pending sale, less than half the median of 35 days a year earlier.

But the biggest reason behind the constraints on supply is the underproduction of new homes since the mid-2000s. New construction creates housing choices for current homeowners who want to move, freeing up existing units for other buyers. Without that option, owners are more likely to remain in place. As a result, only a consistent increase in housing construction over a period of years will provide meaningful growth in inventory in many of today's tight markets.

HOUSING CONSTRUCTION AT NEW HIGHS

Like home sales, new residential construction rebounded quickly in the summer of 2020 and continued at a strong pace through early 2021. Housing starts climbed 6.9 percent last year to 1.38 million units—the highest output since 2006 when production reached 1.80 million units. Completions were also up 2.5 percent to 1.29 million units, while permitting rose 6.1 percent to 1.47 million units.

For the first time in three years, single-family construction drove the increase in production in 2020. Starts of single-family homes jumped to 991,000 units—a 12 percent gain for the year and the biggest percentage increase since 2013 (Figure 8). But even these impressive numbers probably understate the strong upturn. After dropping to 685,000 units in April at a seasonally adjusted annual rate, single-family starts averaged 1.16 million units from August 2020 through March 2021. This represents a substantial pickup from the previous 13 years when starts consistently lagged below the one-million mark.

Meanwhile, multifamily housing construction dipped 3 percent last year, to 389,100 units, but remained on par with the elevated pace maintained since 2014. Indeed, multifamily starts topped 350,000 units just once in the 24 years from 1990 through 2013, but then exceeded that level for the next seven years. Starts accelerated further in the first quarter of 2021, averaging a robust 446,000 units at a seasonally adjusted annual rate.

Housing construction has finally approached levels consistent with projected demand. From June 2020 through March 2021, total starts averaged just over 1.5 million units at a seasonally adjusted annual rate, in line with the Joint Center's housing demand projections calling for production of 1.5 million units annually in 2018–2028. Although those projections do not account for lower-than-expected population growth in the past few years, the low level of homebuilding since the mid-2000s likely means that new supply has not yet caught up with demand. In fact, Freddie Mac estimates that the housing supply at the end of 2020 was 3.8 million units short of the level needed to match long-term demand.

SHIFTING LOCATION AND SIZE OF NEW HOMES

When suddenly under stay-at-home orders in March 2020, many households found the need for more living space to accommodate the dramatic changes in their work, school, and leisure activities. The pandemic thus fueled already hot demand for single-family homes, the type of housing typically found in communities outside of major urban centers.

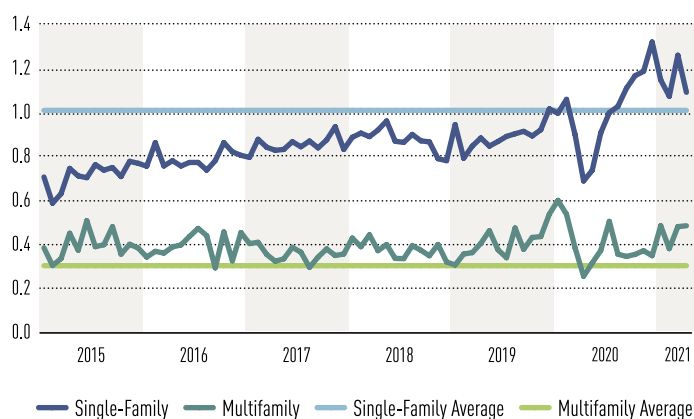
As a result, total permitting increased 12 percent in the suburban counties of large metros last year, but fell 2 percent in the core counties of these markets. Permitting also rose 10 percent in smaller metros and 9 percent in non-metro areas. Growth was largely on the single-family side, with double-digit increases in single-family permits in the suburban counties of large markets (17 percent), smaller metros (15 percent), and non-metro areas (12 percent). About a third (303,000) of all single-family permits were issued in the suburban counties of large markets in 2020, while another 38 percent were issued in small and midsize markets (Figure 9). Single-family permitting in the core counties of large metros also rose 8 percent last year, to 212,000 units.

Meanwhile, multifamily permits in core areas fell 10 percent in 2020, but at 250,000 units, construction remained close to the elevated levels of the past half-decade. Following substantial increases in 2019, the numbers of multifamily permits issued in the suburban counties of large markets and in smaller metros declined 2 percent last year. Permitting in non-metro areas, however, was unchanged.

FIGURE 8

The Pace of Both Single-Family and Multifamily Construction Has Exceeded Historical Averages for Nearly a Year

Annualized Housing Starts (Millions of units, seasonally adjusted)

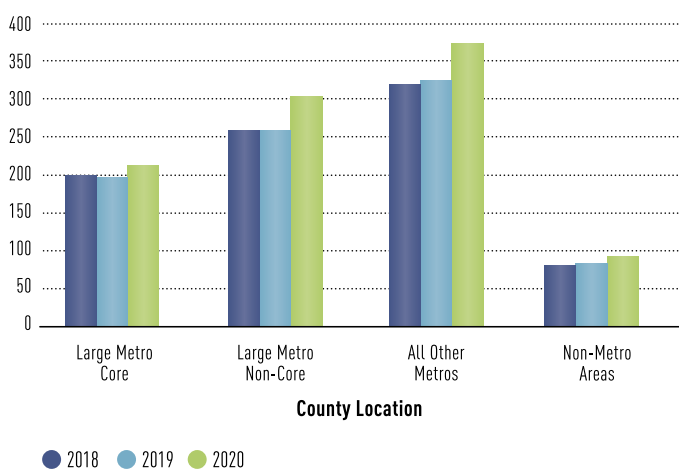


Note: Single-family and multifamily historical averages are of seasonally adjusted monthly data from January 1990 to March 2021.
Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

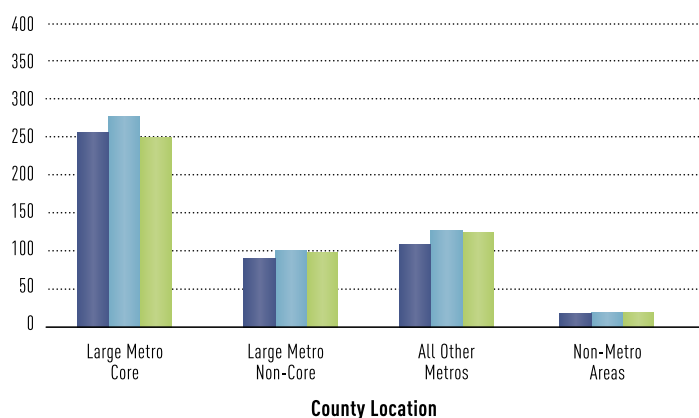
FIGURE 9

Single-Family Construction Continued to Strengthen Across Markets Last Year Even as Multifamily Construction Hit a Pause, Particularly in Core Counties

Single-Family Permits (Thousands)



Multifamily Permits (Thousands)



Notes: Large metro areas have at least one million residents. Core counties contain either the largest city in the metro area or any city with over 250,000 residents. Non-core counties are all other counties in large metro areas. Source: JCHS tabulations of US Census Bureau, Building Permits Survey via Moody's Economy.com.

With more young and first-time homebuyers entering the market, demand for smaller, more affordable homes was on the increase in 2019. Completions of single-family homes with less than 1,800 square feet rose 13 percent that year, to 217,000 units, slightly outpacing the 11 percent increase in mid-sized units (1,800–2,999 square feet). The share of larger homes (at least 3,000 square feet) declined 4 percent. Even so, smaller units accounted for only 24 percent of completions in 2019, about the same as in 2018 but well below the 32 percent share averaged from 1999 to 2011.

When the COVID-19 pandemic hit, demand for larger homes again increased. As a result, the median size of newly started single-family homes fell only slightly from 2,271 square feet in 2019 to 2,265 square feet in 2020. The size of typical new homes inched up by another 0.2 percent in the first quarter of 2021 from a year earlier.

Still, the need for new homes at a variety of price points will only increase as more millennial homebuyers come into the market. Newly built units, however, are typically more expensive than existing homes. According to CoreLogic, new homes accounted for almost a fifth (19 percent) of premium home sales nationally (in the top third by price) from October 2019 through September 2020, but just 6 percent of entry-level sales (in the bottom third). However, new construction does provide more than 10 percent of entry-level housing in nearly a quarter of the 100 large markets that CoreLogic tracks. Most of the metros with large shares of new entry-level homes—including Dallas (18 percent), Phoenix (14 percent), and Denver (11 percent)—are moderate-cost markets with substantial new construction.

CONTINUING CONSTRAINTS ON RESIDENTIAL DEVELOPMENT

Restrictive land use regulations are among the most significant barriers to housing production. A 2018 survey of land use practices in nearly 2,800 communities found that 93 percent imposed minimum lot sizes in their jurisdictions. Some 40 percent of these communities set a one-acre minimum, including 27 percent with two-acre minimums. The stringency of these requirements varied by region, with 61 percent of jurisdictions in the Northeast imposing at least a one-acre minimum, compared with 36 percent of communities in the Midwest, 32 percent in the South, and 29 percent in the West.

In addition, some land use and zoning practices, as well as other local and state requirements, restrict the amount of land available for development. These regulations can raise the cost of land, especially in markets where demand is strong. According to FHFA estimates, the median land value of a quarter-acre lot occupied by an existing single-family home was \$163,500 in 2019, some 60 percent higher than in 2012. Among the nation's 100 largest markets, median land prices were highest on the West Coast, particularly San Jose (\$1.2 million), San Francisco (\$945,900), and Honolulu (\$786,500). In contrast, median land values were below \$50,000 in 38 large markets located outside the West.

Many communities also require multiple approvals for residential developments. While ensuring that legitimate public concerns are addressed, these approvals mean delays, uncertainty, and additional costs for developers. The process for approving construction of single-family units takes about 2.5 months on average if the project

is permitted under existing rules and 4.3 months if special approval is required. For multifamily projects, the average review times are 3.1 months and 4.9 months, respectively.

The cost and availability of labor is yet another issue for homebuilders. The average hourly wage in the construction industry increased by 2.8 percent in March 2021 from a year earlier, to \$32.25 per hour. The steady rise in wages may eventually help to attract workers from other fields or those returning to the labor market as the pan-

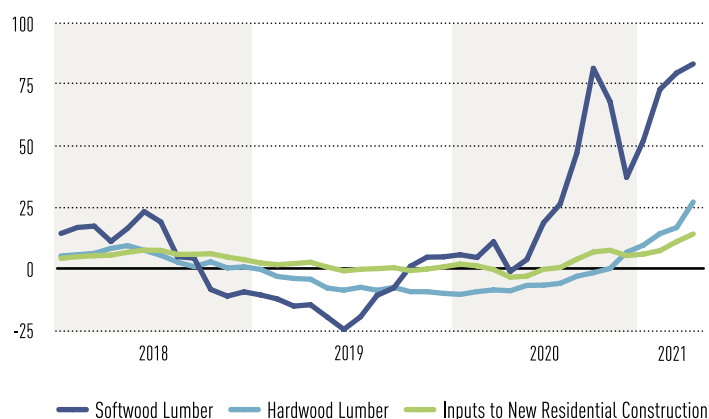
demie continues to subside. As it is, though, the number of job openings in construction fell sharply on a 12-month rolling basis from 309,000 in early 2020 to 268,000 in early 2021, but remained about twice the 130,000 openings averaged from 2000 to 2016.

However, the NAHB/Wells Fargo Housing Market Index indicates that the top concerns for homebuilders in 2020 were the scarcity and cost of building materials, likely exacerbated by supply chain problems during the pandemic. Multifamily developers responding to the NMHC Construction Survey in early 2021 were similarly concerned, with 93 percent of firms reporting an increase in the price of materials compared with just 5 percent of firms a year earlier.

FIGURE 10

Sharply Rising Lumber Prices Have Driven Up the Materials Costs of Residential Construction Since the Start of the Pandemic

Annual Change in Prices (Percent)



Note: Inputs to new residential construction exclude capital, labor, and imports.
Source: JCHS tabulations of Bureau of Labor Statistics, Producer Price Indexes.

The surge in softwood lumber prices is particularly alarming, up some 83 percent year over year in March 2021 (**Figure 10**). A recent NAHB analysis found that the jump in lumber costs added about \$36,000 to the average price of a new single-family home. Given increasing costs for other common construction materials such as gypsum (up 6 percent) and concrete (up 2 percent), the price of inputs to new residential construction overall rose by a substantial 14 percent year over year in March 2021.

PERSISTENT CLIMB IN HOME PRICES

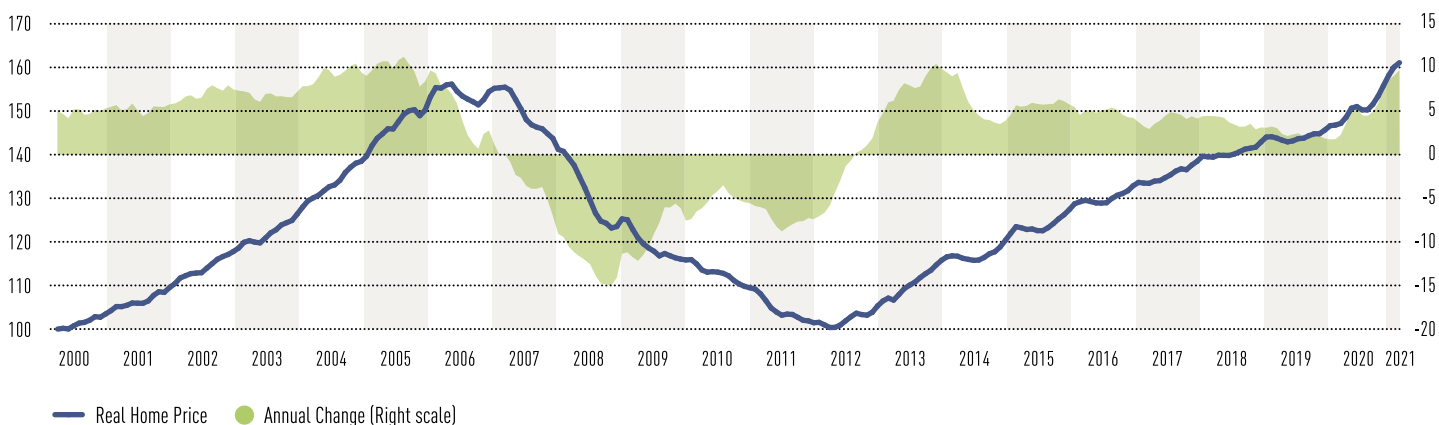
With inventories and interest rates at or near record lows, home prices have moved progressively higher. Year-over-year increases in the S&P CoreLogic Case-Shiller Home Price Index jumped from 4.5 percent in March 2020 to 10.4 percent in December—the first double-digit rise since 2014. Adjusted for inflation, the end-of-year increase was still a robust 9.1 percent (**Figure 11**). The runup that began in mid-2012 and continued for over 100 consecutive months

FIGURE 11

Real Home Prices Have Continued to Climb for Nearly a Decade

Home Price Index

Annual Change (Percent)



Note: Real home prices are adjusted for inflation using the CPI-U for All Items less shelter.
Source: JCHS tabulations of S&P CoreLogic Case-Shiller US National Home Price Index.

thus left real home prices 2 percent above the mid-2000s peak and 60 percent above the level in 2000.

According to the FHFA Purchase-Only House Price Index, nominal home prices in the first quarter of 2021 increased by at least 10 percent in 85 of the 100 metro areas and divisions tracked by the index, up from just 5 markets the year prior. In 99 of those markets, the pace of the increases was escalating. The largest metro area gains were in Boise (28 percent), Austin (23 percent), and Tacoma (22 percent). Home prices in non-metro areas also climbed. The FHFA All-Transactions House Price Index, which generally shows slower appreciation than the Purchase-Only Index, indicates that non-metro home prices rose at a 6.0 percent annual rate at the end of 2020, up from 5.6 percent a year earlier.

Based on Moody's household income projections, the national price-to-income ratio is expected to rise from 4.14 in 2019 to 4.37 in 2020. This would mark the fifth consecutive year that the median home price was more than four times median household income. By comparison, average price-to-income ratios were considerably lower at 3.21 in the 1980s, 3.31 in the 1990s, 4.01 in the 2000s, and 3.82 in the 2010s. Ratios in the nation's 100 largest metros are expected to range as high as 10.9 in San Jose, 9.5 in Honolulu, and 9.4 in Los Angeles, and as low as 2.5–2.6 in Scranton, Syracuse, and Toledo.

Meanwhile, home prices and rents have diverged sharply. Zillow reports that typical home values rose 9.1 percent nationally in January 2021, up from 3.7 percent a year earlier. At the same time, rent growth slowed from 2.9 percent to just 1.2 percent. This divergence is widespread, with home price growth exceeding rent growth in all 99 large metros that Zillow tracks.

The different trajectories of home prices and rents reflect fundamental market forces. On the demand side, low interest rates have given a big lift to home prices but have had little immediate effect on rents. In addition, the financial fallout from the pandemic has been much less detrimental to the older, higher-income households who typically buy homes than to younger, lower-income households who typically rent. Pandemic conditions also increased demand for suburban living where owner-occupied housing predominates and reduced demand in urban areas where rental housing is concentrated. These conditions left a growing supply of rental housing, particularly in high-end markets in select metro areas, even as the inventory of for-sale homes reached an all-time low.

RAPID HOME PRICE GROWTH IN COMMUNITIES OF COLOR

From December 2019 to December 2020, typical home values increased in about 27,300 of the nearly 30,000 zip codes tracked by Zillow. In a third of those zip codes, home price appreciation exceeded 8 percent, including over half of the neighborhoods where people of color were in the majority. Home values in these communities rose 9.3 percent on average over the year, far faster than the 7.7 percent increase in majority-white neighborhoods.

Price growth in communities of color also outran metro-wide averages in 47 of the 50 largest markets in December 2020. In Philadelphia, for example, prices in the 51 neighborhoods where people of color made up at least half the population rose by an average of 14.3 percent—3.5 percentage points faster than the average for all 353 metro-area zip codes. In Atlanta, home prices in communities of color were up 10.6 percent, outpacing metro-wide gains by 1.4 percentage point.

Home price appreciation where people of color are in the majority has in fact exceeded metro-area averages for several years. Even so, prices have not returned to their mid-2000s peaks in many cases. In the 18,000 zip codes with Zillow home prices dating back to 2004, typical home values in 19 percent remained below peak in 2020. Yet in the 3,000 communities where people of color were in the majority, the share below peak was much higher at 26 percent. In the 616 majority-Black neighborhoods, the share was higher yet at 36 percent.

Still, rising home prices mean rising equity for current owners, which could offer some buffer against the income losses that many households of color suffered during the pandemic. But the long-term lag in home prices in communities of color highlights the disadvantages that homeowners in these neighborhoods face in attempting to build wealth and secure their financial futures.

THE OUTLOOK

Given the extremely limited supply of homes for sale across the country, prices will likely continue to rise for the foreseeable future even if interest rates tick up and more sellers put their homes on the market. But in the longer term, robust growth in housing construction will be necessary to temper conditions in some of today's overheated homebuying markets. However, homebuilders will need to meet the growing demand for homes of various sizes and at different price points, especially as millennials become a dominant force in the market.

3 DEMOGRAPHIC DRIVERS

Early estimates suggest that the pandemic did little to interrupt the ongoing rise in household growth, with millennials continuing to head up new households at a strong clip. As these young adults marry and have children, they are reinforcing household growth outside of urban centers. The economic disruption caused by the pandemic did, however, widen already large inequalities in income and wealth. On top of slowing population growth, these persistent disparities prevent people of color and those with lower incomes from forming their own households, in turn reducing longer-term demand for housing.

UPTICK IN MILLENNIAL HOUSEHOLDS

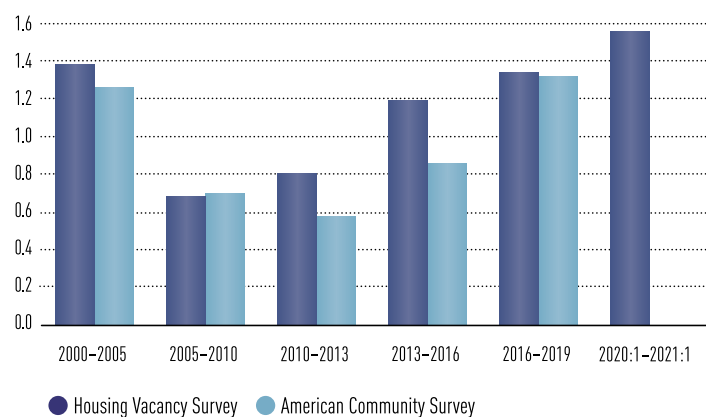
The pandemic hit at a time when household growth, the primary driver of housing demand, was strong and accelerating. By American Community Survey estimates, the number of US households increased by 1.3 million per year on average from 2016 to 2019—significantly faster than the 856,000 annual increases aver-

aged in 2013–2016. Housing Vacancy Survey data also put average annual household growth at 1.3 million in 2016–2019, comparable to the level averaged in the early 2000s (**Figure 12**). By both of these measures, household growth had been running well above the 1.2 million mark—the pace that Joint Center projections suggest would be due to population growth and demographic shifts alone.

FIGURE 12

Early Evidence Points to a Consistent Pickup in Household Growth Despite the Pandemic

Average Annual Increase in Households (Millions)



Note: Estimate for 2021:1 is the year-over-year change in the first quarter.

Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys and American Community Survey 1-Year Estimates.

Rising headship rates among young adults (the share heading their own households) explain this uptrend. Until recently, the millennials (born 1985–2004) had not formed independent households at a pace similar to that of previous generations at the same ages. In fact, American Community Survey data show that the number of households headed by adults under age 35 declined for most of the 2010s even though the population in that age group was soaring. Since 2016, however, household formation rates among millennials have been rising. Indeed, adults under age 35 have made increasingly large contributions to overall household growth, accounting for an additional 250,000 households annually in 2016–2019 (**Figure 13**). Headship rates among 35–44 year olds also increased over that period, adding 200,000 households in that age group each year.

The economic shutdowns starting in March 2020 had only a limited and temporary impact on headship rates and therefore on household growth. When the unemployment rate spiked to 14.8 percent in April, many young workers were unable to sustain their own households and moved back in with their parents. However,

once job growth began to revive in the fall, the increase in young adults living with parents and the decline in their headship rate were nearly reversed by the end of the year (**Figure 14**). According to Housing Vacancy Survey data, the total number of households was up by 1.5 million in the first quarter of 2021 from a year earlier, largely on the strength of higher headship rates among these young adults.

The surprising resilience of household formations among the millennial population suggests that their generation will continue to lead the growth of housing demand. The headship rates of adults under age 35 are still historically low and therefore have room to increase. In addition, the older millennials are moving into the 35-44 year old age group, a stage of life when headship rates are consistently higher. While slowdowns in national birth and death rates are becoming increasingly evident, higher household formation rates among the millennial generation will likely offset those drags on household growth in the near term.

CHANGES IN RESIDENTIAL MOBILITY

Early in the lockdown, most households chose to stay put. Nearly twice the share of respondents to Fannie Mae's National Housing Survey for the third quarter of 2020 said that they delayed (11 percent) rather than accelerated (6 percent) their moves. Renewals of rental leases thus hit record highs in April 2020, while existing home sales were down 27 percent in May from a year earlier.

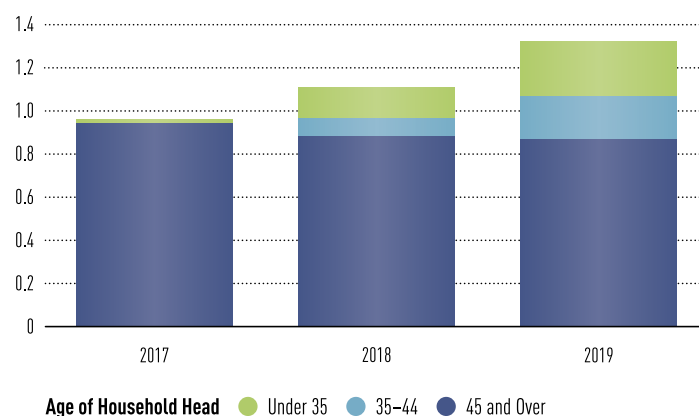
As the months wore on, however, the pace of residential moves picked up. Historically low mortgage interest rates encouraged a spate of homebuying, lifting existing home sales by more than 20 percent year over year from September 2020 through January 2021. A growing number of urban renters—particularly those with higher incomes—also moved out of apartments where they were paying a premium for proximity to job centers and other amenities. Many of these households either bought homes or relocated to rentals in the suburbs, but others simply moved to nearby apartments that were offering rent concessions or at least lower costs. Indeed, RealPage data indicate that renter retention rates in urban areas fell much more than rental occupancy rates, implying that many households either traded up to higher-quality apartments or sought out lower-rent units within the city.

With the reopening of businesses, restaurants, entertainment venues, demand for rental housing in prime urban areas started to revive in early 2021, giving another boost to residential mobility. As pandemic-related restrictions continue to ease and vaccination rates increase, more homeowners will become comfortable putting their homes on the market and more potential buyers will consider relocating. Many conditions that encourage homebuying are already in place, including low interest rates, a growing number of households at the prime ages for first-time homeownership, changing needs for living space, and

FIGURE 13

Younger Adults Have Given an Increasingly Large Lift to Household Growth

Annual Household Growth (Millions)

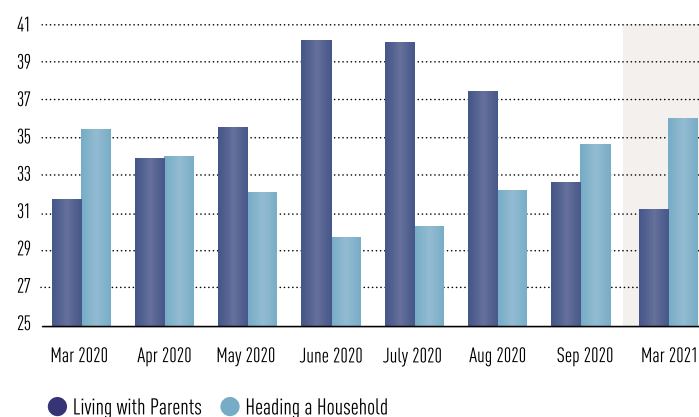


Note: Data are 3-year rolling annual averages to reduce volatility.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

FIGURE 14

After Retreating to Their Parents' Homes Last Summer, Many Young Adults Were Living on Their Own Again by Early 2021

Share of Non-Student Population Aged 18-29 (Percent)



Note: Data exclude people enrolled full time in college or university.
Source: JCHS tabulations of US Census Bureau, Current Population Survey via IPUMS CPS, University of Minnesota, www.ipums.org.

increased ability to work from home. However, the persistent shortage of homes for sale is a significant constraint on purchases and therefore on overall residential mobility rates.

POTENTIAL IMPACTS OF A SHIFT TO REMOTE WORK

Even before the pandemic began in March 2020, household growth in the suburbs of large metros and in small metros had been on the

increase (Figure 15). In part, this shift reflects the fact that the large millennial population was reaching the ages when they typically have children and move from urban rentals to larger homes. Those homes are often single-family units in outlying communities where more space is available at a price they can afford.

The pandemic thus helped to accelerate these moves, particularly among younger households that were already contemplating a home purchase to stop paying the high rents charged in prime urban locations. Record-low interest rates provided a strong incentive to buy, while the increased savings afforded by the economic shutdown gave some the additional means to do so.

The need for more space to work comfortably from home was yet another impetus to move. In 2019, the American Community Survey indicated that just 5.7 percent of the labor force worked from home full time. In May 2020, however, the Bureau of Labor Statistics reported that the share working from home because of the pandemic stood at 35.4 percent. Although the total share working from home receded to 18.3 percent by April 2021, large portions of certain groups continued to work remotely, including over a third of workers with college degrees and nearly half of workers in business and financial operations.

Now, more than a year after lockdowns began in March 2020, many employees are set up to work at home and have the experience to do so productively. While most would prefer to continue to do so at least part of the week, employers are less sold on the idea. A January 2021 PricewaterhouseCoopers survey shows that over half of employees (55 percent) would like to work remotely at least three days a week, but only a quarter of executives expected many or all office employees to work at home for a significant share of the workweek after the pandemic ends. Still, more than 70 percent of executives also planned to increase spending on virtual collaboration tools and manager training, and about half planned to invest in systems that would support hybrid working models, such as hoteling apps for shared desks and communal office space.

If lasting, the increase in remote work could profoundly reshape housing demand, albeit in potentially conflicting ways. On the one hand, homebuyer surveys indicate that those expecting to work from home look for larger houses, which usually means living in suburban or exurban communities. This would reinforce the concentration of household growth in outlying areas. On the other hand, research has also shown that remote workers desire easy access to stores, transit, and other amenities, which means that they would be more drawn to urban settings. The extent to which employees are able to work remotely after the pandemic, and how much impact a major shift to this practice would have on neighborhoods and the built environment, are thus unclear.

Meanwhile, working from home is not an option for more than half of the US labor force, particularly those in the leisure and hospitality, healthcare, services, and education sectors. Even so, they could still benefit if remote work becomes commonplace among workers in other professions. For example, less competition for prime urban locations could make housing near job centers more affordable. And with fewer people traveling to work at peak hours, commute times might improve. Research from before the pandemic suggests, however, that these indirect benefits may take years to develop and could easily be offset by other factors. For example, improvements in commuting times are often short-lived because the shorter travel times tend to attract more commuters.

DIVERGING TRENDS IN INCOMES AND WEALTH

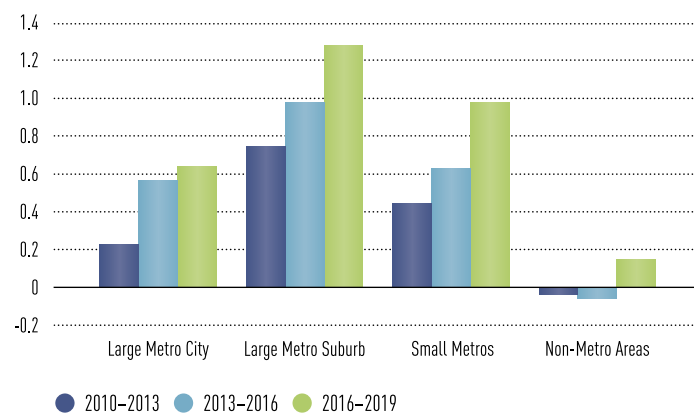
With fewer opportunities to spend money as well as significant cash infusions from the federal government, many households with stable jobs were able to reduce their expenses and even build wealth during the pandemic. In fact, the personal saving rate rose from 7.6 percent of disposable income in January 2020 to an all-time high of 33.7 percent in April 2020. For many homeowners, these savings came on top of a jump in housing wealth propelled by rising home prices. And for many renters, the extra cash provided an opportunity to pay down debt or save for a downpayment on a home.

At the same time, though, soaring job losses left millions of other households in dire straits. The US lost 22 million jobs between February and April 2020 when employment in food services and in the leisure and hospitality industries dropped by nearly half.

FIGURE 15

Household Growth Outside the Cities of Large Metro Areas Was Accelerating Well Before the Pandemic

Change in Households (Millions)



Notes: Large metro areas have at least one million residents. City tracts are either in the metro's principal city or in cities with populations over 100,000. All non-city tracts in metro areas are suburban.
Source: JCHS tabulations of US Census Bureau, American Community Survey 5-Year Estimates.

By early 2021, fully 43 percent of all households—including 53 percent of renters—reported lost income due to the pandemic. The diverging circumstances between those with the resources to weather the economic shutdowns and those struggling to simply stay afloat thus widened already large inequalities in income and wealth.

The Household Pulse Surveys reveal stark disparities driven by differences in educational attainment and income. In early 2021, nearly half (48 percent) of the households that lost income due to COVID-related factors earned less than \$50,000, and nearly three quarters (74 percent) were headed by someone without a college degree. Meanwhile, households with higher incomes and advanced education were much less affected during the lockdowns because they were more likely to be able to work remotely. Indeed, a 2020 report from the Bureau of Labor Statistics found that 67.5 percent of workers with a bachelor's degree worked in occupations that could be done from home, compared with just 24.5 percent of workers with only a high school diploma.

The ability to withstand a temporary loss of income depends largely on having a reserve of wealth. In this case, homeowners have a huge advantage over renters. At last measure in 2019, the median wealth for homeowners was \$254,900—more than 40 times the \$6,270 median for renters (**Figure 16**). Even excluding home equity, the median wealth of owners was \$98,500, or more than 15 times that of renters.

There are also significant differences in household wealth and financial resiliency by race and ethnicity. Indeed, a November 2020 survey by the Federal Reserve found that just 45 percent of Black adults and 47 percent of Hispanic adults would have enough cash to pay for an unexpected expense of \$400, compared with 72 percent of white adults. Overall, the median wealth of white households was more than seven times that of Black households and over five times that of Hispanic households. Although smaller, the differences in wealth among only homeowners are still considerable. For example, the median net wealth of Black homeowners was over 60 percent less than that of white homeowners and over 30 percent less than that of Hispanic homeowners.

Inequalities in household wealth are even greater when measured by income, leaving lowest-income households particularly at risk in the event of a job loss. The median net wealth of households in the top income quartile in 2019 was 60 times that of households in the bottom quartile. Indeed, the top 1 percent of households by income held more wealth (\$35.7 trillion) than the bottom 90 percent (\$22.6 trillion). Meanwhile, the typical renter in the bottom income quartile had just \$1,900 in total wealth—less than one month's usual expenditures for this group—including only \$360 in cash savings.

Even lowest-income households that own homes are vulnerable to job losses because much of their wealth is tied up in home equity—

FIGURE 16

Wide Disparities in Wealth Leave Renters at a Large Disadvantage in the Housing Market

Median Household Wealth (Dollars)

	Owners	Renters	All Households
All Households	254,900	6,270	121,760
Race/Ethnicity			
Black	113,130	1,830	24,100
Hispanic	164,800	5,800	36,050
Asian and All Other Races	299,000	6,710	74,500
White	299,900	8,900	189,100
Income Quartile			
Bottom	108,100	1,900	10,700
Lower Middle	161,000	8,300	64,800
Upper Middle	240,200	20,700	164,000
Top	703,000	154,000	627,000

Notes: White, Black, and Asian and all other race households are non-Hispanic. Hispanic households may be of any race.
Source: JCHS tabulations of the Federal Reserve Board, 2019 Survey of Consumer Finances.

an asset that is difficult to access quickly and without cost. Indeed, while homeowners in the bottom income quartile had a median net wealth of \$108,000, their median cash savings amounted to just \$1,500. One in three of these homeowners had less than \$500 in cash.

THE IMPENDING DRAG OF SLOWER POPULATION GROWTH

New Census Bureau estimates indicate that US population growth slowed again last year, dipping to 0.35 percent from July 2019 to July 2020. The addition of just 1.15 million people was about half the 2.37 million originally projected. The unexpected weakness of population growth reflects a combination of factors, including higher-than-predicted death rates and lower-than-predicted birth rates among the resident population, as well as the more than 50 percent drop in international immigration from 2016 to 2020.

COVID-19 was of course a large contributor to the increase in deaths last year, responsible for more than 384,000 fatalities according to provisional CDC data. The ongoing opioid crisis also added

to the count, with drug overdoses reaching a record high in May 2020. Meanwhile, the US fertility rate declined 4 percent last year, resulting in the fewest births since 1979. The Brookings Institution estimates that the number of births in 2021 will also be 300,000 below normal due to the pandemic. Moreover, the CDC reduced the estimated life expectancy for those born between 2019 and the first half of 2020 by one full year.

The halt in immigration in April 2020 also pulled down overall population growth, reducing the number of net new immigrants to 477,000 for the year. As it was, international immigration had already fallen 47 percent from 1.07 million per year in 2016 to 570,000 in 2019 (**Figure 17**). The size of this decline is significant because immigrants account for such a large share of both population growth and household growth. Indeed, foreign-born residents contributed about a third of the nation's population growth in 2010–2019, along with 40 percent of household growth.

Immigration is particularly critical to sustaining population growth in large cities and stabilizing the populations in rural areas. For example, the population of New York City would have declined by more than a quarter-million between 2010 and 2019, but instead grew by 160,000 with the arrival of nearly 500,000 international immigrants. Similarly, in rural counties with declining populations, gains from immigration over the decade have stemmed even greater losses. If international immigration remains as constrained as it has been since 2017, population losses across the country will increase in scale and scope, not only dampening household growth but also destabilizing local economies.

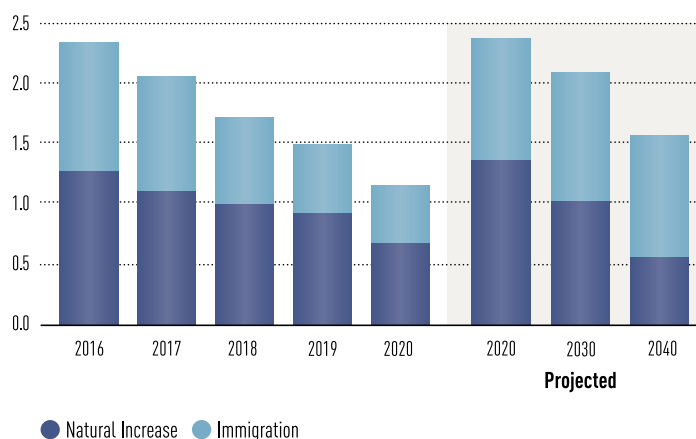
Low immigration levels translate directly into slower household growth and therefore into weaker housing demand. Assuming that the Census Bureau's low-immigration projection of roughly 600,000 net new immigrants per year in 2018–2028 stands, the Joint Center's household growth projections for that period would be reduced by 1.8 million, from 12.2 million to 10.4 million.

So far, though, household growth measures do not reflect the impacts of slowing population growth for several reasons. First of all, the overall aging of the population continues to have a large positive impact on household growth because the likelihood of heading a household increases with age. Rising headship rates among younger adults are also giving a large and growing boost to household growth. Moreover, much of the slowdown in resident population growth is due to lower birth rates and fewer children under age 18—cohorts that are too young to form households and therefore not affecting current growth rates. And finally, since the majority of immigrants do not immediately form their own households upon arriving in this country, the drag on household growth from lower immigration only becomes apparent over time.

FIGURE 17

Sharp Declines in Both Natural Increase and Immigration Left Population Growth in 2020 at Half Its Previously Projected Levels

Year-over-Year Change in US Population (Millions)



Note: Natural increase is the difference between the number of births and the number of deaths in the resident population.
Source: JCHS tabulations of US Census Bureau, vintage 2020 Population Estimates and 2017 Population Projections.

THE OUTLOOK

Despite the unprecedented economic and social disruption caused by the pandemic, the rebound in headship rates among the millennial generation should prop up household growth in the near term even as overall population growth slows. The aging of this large generation into their 30s will likely increase demand for single-family homes in suburban and exurban areas. If working at home full time becomes common practice post-pandemic, this change could also reinforce the shift in housing demand away from expensive urban locations.

But over the longer term, lower-than-expected birth rates and drastic cuts to immigration have exacerbated the slowdown in population growth, potentially dragging down future household growth. Policies providing greater support for working families could eventually counter the current decline in birth rates and ultimately boost housing demand. But immigration is the only demographic driver of demand that could rebound quickly with more supportive federal policies in place.

Efforts to reduce the many stark economic disparities in US society would also lift future housing demand. The combination of low incomes and high housing costs limits the ability of many young adults to form their own households and to remain securely housed. Indeed, as the last year has demonstrated, the loss of steady incomes and lack of savings have left millions of households—particularly those of color or with low incomes—at risk of eviction or foreclosure, fueling even greater inequality.

4

HOMEOWNERSHIP



Despite the economic contraction, the national homeownership rate increased again in 2020 amid strong demand from younger and higher-income households. But fierce competition for the limited supply of homes for sale has pushed up prices to new heights and left many potential buyers on the sidelines. Since many of these would-be owners are lower-income households and households of color, these conditions have reinforced longstanding disparities in homeownership. Meanwhile, millions of current owners are behind on their mortgage payments and at risk of foreclosure when forbearance programs end this year.

RISING DEMAND FOR HOMEOWNERSHIP

The national homeownership rate continues to edge up. According to the Housing Vacancy Survey, the national homeownership rate stood at 65.6 percent in the first quarter of 2021, a 0.3 percentage point increase from a year earlier (**Figure 18**). Preliminary Census Bureau data also show that the number of homeowners rose by about 1.3 million over this period, consistent with average annual gains from 2016 to 2019.

Households under age 35 made the largest advances over the past year, continuing the uptrend that preceded the pandemic. Homeownership rates for this age group increased 0.8 percentage point from the first quarter of 2020 to the first quarter of 2021. This followed a 2.2 percentage point rise between the 2016 low and 2019. These large homeownership gains were fueled in part by strong income growth. While incomes for all age groups rose throughout the 2010s, households under age 35 posted the largest increase of 21 percent over the decade.

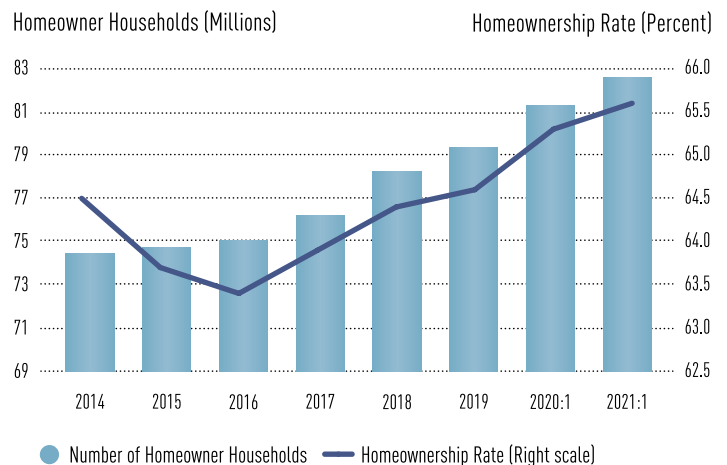
The homeownership rate for households aged 35–44 also climbed in early 2021, up 0.5 percentage point from a year earlier, while the rates for the 45–54 and 55–64 year-old age groups fell slightly. Meanwhile, the homeownership rate for households age 65 and over increased by 0.6 percentage point. Although the rate for these older adults declined slightly in 2016–2019, the aging of the baby-boom generation meant that the number of older homeowners still grew by some 800,000 per year over that period—far exceeding the 500,000 annual increase in homeowners in all other age groups combined.

HIGHER PRICES LIMITING AFFORDABILITY

Following a steady downtrend since the third quarter of 2019, the 30-year fixed mortgage rate hit a record low of 2.70 percent in the first week of January 2021. Although rates then began to tick up, they were back below 3.00 percent again in May. Such low rates have helped to hold down the monthly costs of homeownership amid the sharp

FIGURE 18

Despite the Pandemic, the National Homeownership Rate Remained on the Rise Over the Past Year



Notes: Data for 2014–2019 are annual. Data for 2020 and 2021 are for the first quarter.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

rise in prices. Indeed, typical monthly homeowner costs rose just 2.2 percent in 2020, keeping real payments at the 1990 level (**Figure 19**).

In combination with extremely limited supply, however, low interest rates have also helped to fuel the rapid climb in home prices. NAR reports that the median sales price of homes jumped 28 percent from \$233,000 in December 2016 to \$299,000 in December 2020. From December 2019 to December 2020 alone, the median sales price increased by 10 percent.

Higher home prices present a substantial hurdle for would-be buyers by increasing the upfront costs of ownership. A recent report from Realtor.com shows that the median price of a primary home purchased in April 2020 by households aged 25–40 was \$280,800. At that price, potential homebuyers would have to come up with \$15,400 to cover a modest 3.5 percent downpayment and 2.0 percent closing costs—well above the savings of the typical renter in that age group. As prices continue to rise, so too will downpayment requirements, forcing many potential homeowners to either delay their purchases or take on mortgages with very low downpayments and the added costs of mortgage insurance.

But even if potential buyers have sufficient savings, high housing prices still shut many households out of the homeowner market. A recent Joint Center analysis found that the median-income renter could not afford the monthly payments on the median-priced home in more than half of US states in 2019. And

in high-cost markets, households with moderate to high incomes also struggled to buy homes. For example, renters in California, Hawaii, and the District of Columbia had to earn 120 percent or more of the area median income to afford the median-priced home. In another five states (Colorado, Idaho, Oregon, Utah, and Washington), renters had to earn 100–120 percent of the area median income.

Given rapidly rising home prices and the economic challenges facing many low- and moderate-income households during the pandemic, the households able to buy homes last year generally had relatively high incomes. According to NAR's Profile of Home Buyers and Sellers, the median income of households purchasing homes between April and June 2020 (\$110,800) was well above that of households purchasing homes from July 2019 and March 2020 (\$94,400). The homes themselves were also substantially more expensive, with a median price of \$339,400 compared with \$270,000. Indeed, almost a quarter (23 percent) of the households that bought homes between April 2020 and June 2020 paid \$500,000 or more.

FINANCIAL FALLOUT FROM THE PANDEMIC

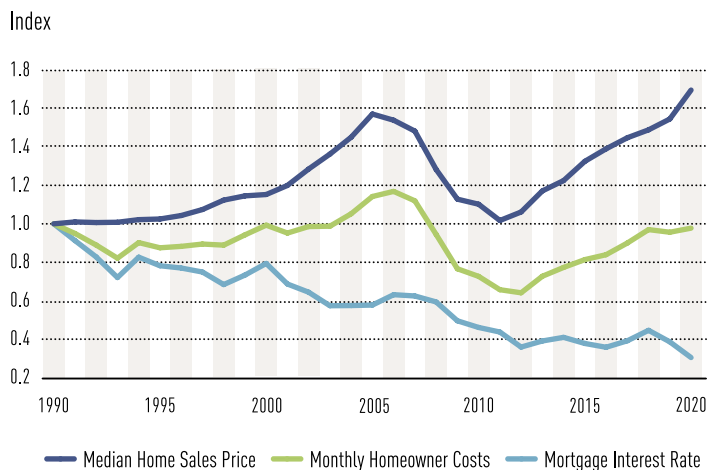
Despite having higher incomes and wealth on average than renters, many homeowners were also financially stretched last year. Household Pulse Surveys from the first quarter of 2021 indicate that nearly 40 percent of homeowners had lost income due to the pandemic, and 9 percent were behind on their mortgage payments.

Homeowners of color were hit especially hard by income losses, given that they were more likely to be employed in the service industries with the most drastic job cuts. Half (50 percent) of Hispanic homeowners lost income by the first quarter of this year, somewhat higher than the 43 percent share of Black homeowners, the 39 percent share of Asian homeowners, and the 35 percent share of white homeowners. As a result, 17 percent of Black, 16 percent of Hispanic, and 16 percent of Asian homeowners were behind on their mortgage payments in early 2021—more than twice the 7 percent share of white homeowners (**Figure 20**).

Low-income homeowners were also more apt to be in arrears. In fact, the share of homeowners making less than \$25,000 that were behind on their payments actually increased from 20 percent in August 2020 to 24 percent in the first quarter of 2021. Meanwhile, 15 percent of homeowners with incomes of \$25,000–49,999 were also delinquent, along with 11 percent of homeowners with incomes in the \$50,000–74,999 range. In contrast, just 5 percent of homeowners earning at least \$75,000 were behind on their mortgages in early 2021. Age of the household head is also a factor, with owners under age 55 twice as likely to be in arrears (11 percent) than older owners (5 percent).

FIGURE 19

Declining Interest Rates Have Offset the Rise in Home Prices, Preventing a Sharp Increase in the Real Monthly Cost of Homeownership



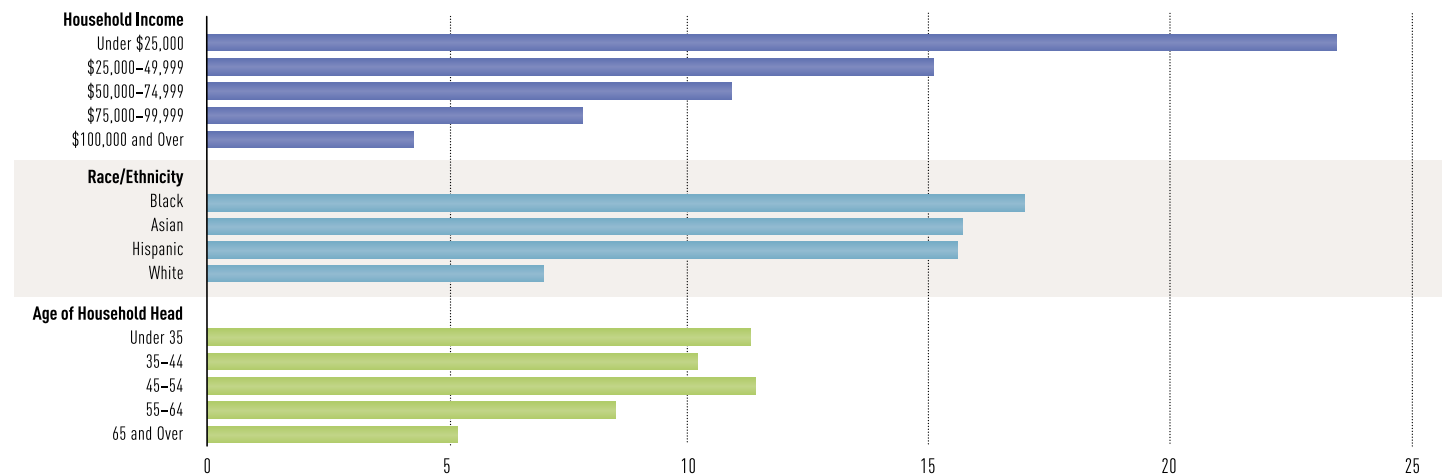
Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%.

Source: JCHS tabulations of Moody's Analytics estimates; US Census Bureau, Current Population Surveys; and Freddie Mac, Primary Mortgage Market Surveys.

FIGURE 20

Large Shares of Low-Income Homeowners and Households of Color Were Behind on Their Mortgages in Early 2021

Share of Homeowners Behind on Payments in 2021:1 (Percent)

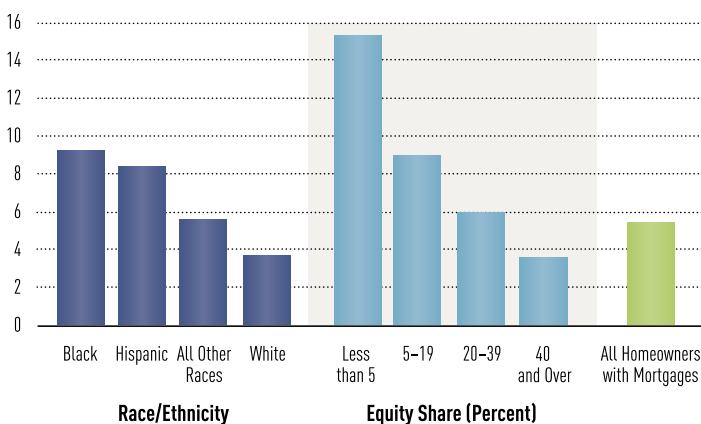


Notes: Households behind on their mortgages reported that they were not caught up at the time of the survey. Household income is for 2019. Black, Asian, and white households are non-Hispanic. Hispanic households may be of any race. Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, January–March 2021.

FIGURE 21

Homeowners of Color and Borrowers with Little Equity Were Especially Likely to Be in Forbearance in Early 2021

Share of Mortgage Holders in Forbearance (Percent)



Notes: Data exclude first liens on manufactured homes. White, Black, and all other race borrowers are non-Hispanic. Hispanic households may be of any race. Equity share is the homeowner's equity as a share of home value. All mortgages in forbearance include loans only on single-family homes. Source: Consumer Finance Protection Bureau, Characteristics of Mortgage Borrowers During the COVID-19 Pandemic, March 2021.

POTENTIAL RISKS FOR BORROWERS IN FORBEARANCE

Under the CARES Act, the federal government imposed moratoriums on foreclosures and mandated mortgage payment forbearance programs to protect delinquent homeowners from losing their homes. According to Black Knight, 7.1 million homeowners (14 percent of all mortgage holders) entered into forbearance during the pandemic. Of these, 4.8 million (68 percent) had exited the programs by March 2021. A large majority of those borrowers had either resolved the

delinquency (65 percent) or paid off their loans (23 percent). A small share (8 percent) were engaged in loss mitigation with their lenders, and the remaining 4 percent were delinquent.

However, some 2.3 million homeowners were still in active forbearance in early 2021. Homeowners in these circumstances were more likely to be households of color and/or have little equity in their homes (Figure 21). A recent Consumer Financial Protection Bureau report found that 9.2 percent of Black and 8.4 percent of Hispanic mortgage holders were in forbearance in March 2021, considerably higher than the 3.7 percent share of white mortgage holders. In addition, 15 percent of borrowers with less than 5 percent equity were in forbearance, compared with just 3 percent of borrowers with at least 40 percent equity.

Forbearance will end by July 2021 for most of this group. At that point, owners must engage with lenders to resolve their accumulated delinquencies. But because these borrowers are especially likely to have suffered sustained income losses, it may be difficult for them to make up for their missed mortgage payments as well as property taxes and homeowner insurance premiums. Lenders often resolve delinquencies by adding the accumulated debt to the mortgage and extending the loan term to cover the costs, but this solution presumes that borrowers can again make full monthly payments.

For homeowners in forbearance and unable to resume payments, selling may be the best option. Again, though, this would not be a solution for borrowers with high debt and limited equity. Black

Knight estimated that, as of January 2021, about a fifth (22 percent) of the borrowers still in forbearance would have less than 10 percent equity left at the end of their 18-month forbearance period if their accumulated mortgage, property tax, and insurance payments were added to their loan balance. The share for borrowers with FHA- and VA-insured loans in a similar situation is even higher at 36 percent. Having this little equity would make it difficult for owners unable to resume their mortgage payments to sell their homes with enough proceeds to resolve their debt.

The American Rescue Plan Act passed in March 2021 includes \$10 billion to help struggling homeowners avoid foreclosure or forced sales by making up for a broad range of missed mortgage payments and even reducing outstanding principal. This funding could provide a critical lifeline not only for owners facing the loss of their homes, but also for the other 30 percent of mortgage borrowers and manufactured home owners that were ineligible for forbearance programs.

SURGE IN REFINANCING ACTIVITY

Record-low interest rates fueled a refinancing boom last year. The Mortgage Bankers Association reported nearly \$2.4 trillion in mortgage refinances in 2020, more than double the volume in the prior year and the highest annual dollar total since 2003 (**Figure 22**). While purchase origination volumes also increased from \$1.2 trillion to \$1.4 trillion, the refinancing share of total mortgage loan volume jumped from 45.6 percent in 2019 to 61.0 percent in 2020.

Along with favorable interest rates, rising home prices encouraged many owners to tap their growing equity. According to Freddie Mac, homeowners took the opportunity to cash out \$48.0 billion in net home equity in the fourth quarter of 2020, a substantial increase from \$34.3 billion a year earlier but still well short of the \$108.1 billion peak in the second quarter of 2006.

For homeowners able to refinance, the savings were significant. Freddie Mac found that borrowers lowered their interest rate from 4.3 percent to 3.1 percent on average, the largest reduction since the second quarter of 2015. Indeed, borrowers that refinanced their 30-year fixed mortgages without taking out equity saved more than \$2,800 in principal and interest payments annually on average.

High-income borrowers benefited the most from refinancing last year. Recent research from Freddie Mac shows that borrowers in the top income quintile were five times more likely to refinance than those in the bottom income quintile. The disparity in refinancing rates between high- and low-income homeowners in 2020—and in the amount of savings each group realized—is unusually wide and further evidence of how the pandemic has exacerbated inequalities.

Households of color have historically been less likely to refinance than white households and therefore among those who also missed out on these savings. Research suggests that households of color may be deterred from refinancing by relatively high denial rates and limited funds to cover the upfront costs. Only about a quarter of Hispanic and Asian homeowners and a fifth of Black homeowners refinanced their mortgages in 2019, compared with a third of white homeowners.

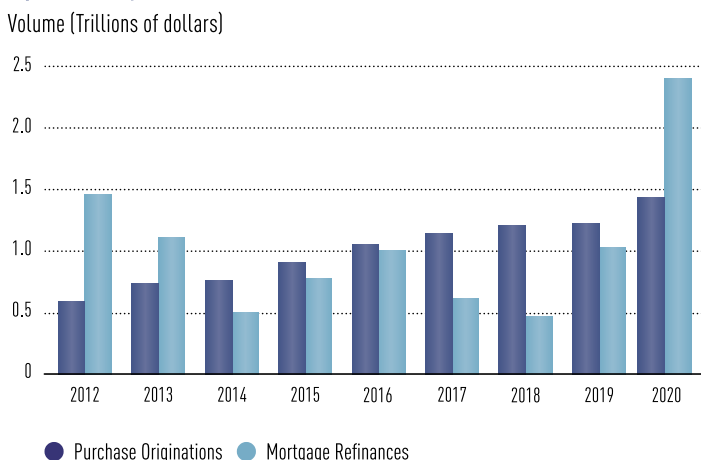
Black owners in their 30s and 40s have particularly low refinancing rates. Indeed, just 9.6 percent of Black homeowners aged 35–44 refinanced their mortgages in 2019, compared with 23.7 percent of same-aged white homeowners. Although refinancing rates by race and ethnicity tend to converge by age 75, homeowners of color that do not refinance earlier in life lose out on savings that would otherwise accrue throughout their prime wealth-building years.

PERSISTENT GAPS IN HOMEOWNERSHIP

Although racial and ethnic disparities in homeownership rates exist across the board, the difference between Black and white households is especially large. The Black-white gap reached a record 30.4 percentage points in 2018 before narrowing slightly to 29.9 percentage points in 2019. American Community Survey data indicate that the homeownership gap exists across all age groups but is the widest (33.8 percentage points) among households in the prime homebuying years of 35–44 (**Figure 23**). Even among households age 65 and over, the ages when homeownership rates are typically highest, the difference in Black-white rates was still 20.3 percentage points.

FIGURE 22

Mortgage Refinancing Activity Surged Last Year, Spurred by Record-Low Interest Rates

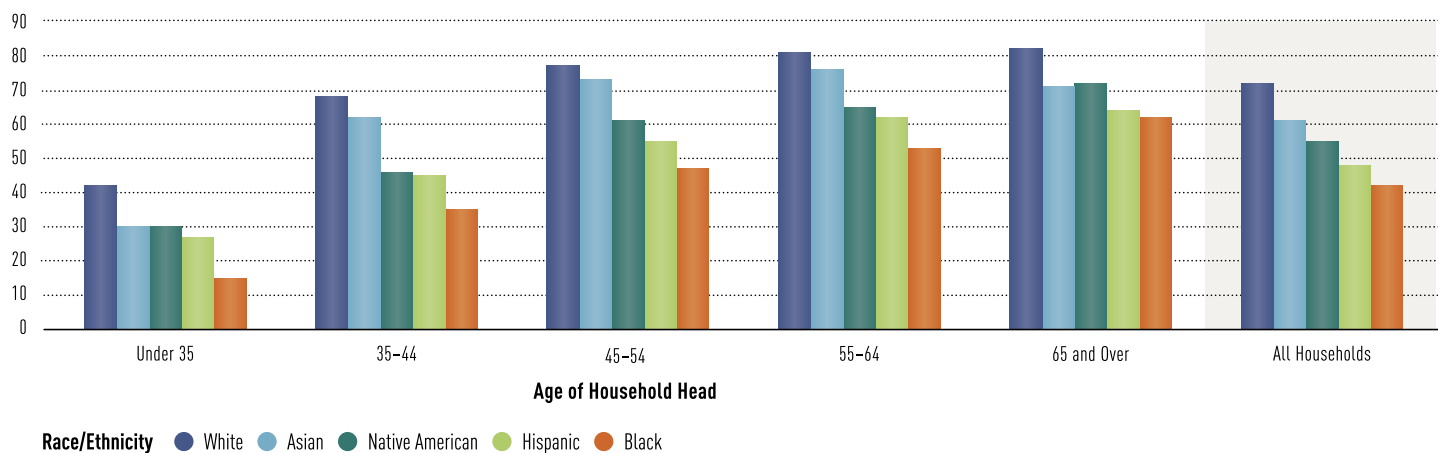


Note: Data are benchmarked to annual Home Mortgage Disclosure Act (HMDA) data, adjusted for market coverage.
Source: JCHS tabulations of Mortgage Bankers Association data.

FIGURE 23

Homeownership Gaps for Households of Color Persist Across All Age Groups

Homeownership Rate (Percent)



Notes: White, Asian, Native American, and Black households are non-Hispanic. Hispanics may be of any race.
Source: JCHS tabulations of US Census Bureau, 2019 American Community Survey 1-Year Estimates.

The wide disparity among older households had in fact inched up from 19.7 percentage points in 2018, which may indicate that Black baby boomers—who were hit especially hard during the Great Recession—had not recovered fully from those setbacks as they reached retirement age. At the same time, though, the Black-white homeownership gap for households under age 35 did improve slightly from 27.4 percentage points in 2018 to 26.7 percentage points in 2019.

Reflecting longstanding inequalities in economic opportunity, income disparities are a key factor in Black-white homeownership gaps. Lower incomes limit the ability of would-be buyers to save for a downpayment and to qualify for a mortgage. In 2019, the median income of Black households was \$43,000, far lower than the \$71,000 median income of white households.

But even controlling for income, significant Black-white homeowner-ship gaps remain. The widest disparity was among households with incomes between \$30,000 and \$44,999, at 29.0 percentage points in 2019. But the gap for households earning \$75,000 to \$99,999 was still 21.0 percentage points. And even among those with incomes of \$100,000 and above, the difference in homeownership rates between Black and white households was 14.1 percentage points.

Homeownership disparities for Hispanic and Asian households have improved more than for Black households, in part because of their higher incomes. The Hispanic-white gap narrowed from a peak of 25.9 percentage points in 2013 to 24.1 percentage points in 2019, while the Asian-white gap shrank from a peak of 14.5 percentage points in 2011 to 11.9 percentage points in 2019. Meanwhile, the median income

of Hispanic households in 2019 (\$55,000) was more than 20 percent lower than that of white households, but some 27 percent higher than that of Black households. The median income for Asian households (\$92,000) was not only 30 percent higher than that of white households, but also more than double that of Black households.

CONTINUING CONSTRAINTS ON WEALTH & CREDIT ACCESS

Along with income disparities, longstanding differences in wealth make it especially difficult for renter households of color to save to buy first homes. Survey of Consumer Finances data show that median net wealth was \$1,800 for Black renters, \$6,000 for Hispanic renters, and \$8,330 for white renters in 2019. Although increasing in recent years, the net wealth of Black and Hispanic renters remained low in absolute terms as well as relative to that of white renters. The wealth gap between Black and white renters in 2016–2019 was unchanged at \$6,500, while the Hispanic-white gap decreased slightly from \$3,350 to \$2,330.

Wealth gaps are even larger for households under age 35, leaving young Black renter households at a large and growing disadvantage in the homebuying market. Indeed, the median net wealth of Black renters under age 35 fell 6 percent from \$479 in 2016 to just \$450 in 2019, while the median net wealth of same-age white renters rose by 51 percent, from \$4,700 to \$7,100.

Access to mortgage credit is another major barrier for households of color, especially under today's tight credit conditions. The Urban Institute's Housing Credit Availability Index was at a record low in the third quarter of 2020, indicating that lenders were imposing

extremely stringent credit standards. Although the MBA's Housing Affordability Index showed a slight easing at the beginning of January 2021, credit availability was still at its tightest level since 2014.

Credit history is a key factor in mortgage loan approvals, but structural racism and other systemic factors related to unemployment, income, and student loan debt all affect scores. The Urban Institute reports that median credit scores in October 2020 were about 610 for Black borrowers and 660 for Hispanic borrowers, significantly below the 745 for all borrowers of conventional loans. In addition, the shares of borrowers with subprime credit scores of 532 and below were significantly higher for Black (45 percent) and Hispanic applicants (32 percent) than for white applicants (18 percent). These differences in credit histories are one reason mortgage denial rates are noticeably higher for Black (16 percent) and Hispanic (12 percent) applicants, compared with white applicants (7 percent).

The limited availability of small-dollar mortgages (under \$70,000) also makes it difficult for low-income households and households of color to buy homes. The costs of originating loans, including verifying income, assets, and home value, do not vary with the amount borrowed, and there are caps on the fees that can be charged as a percent of the loan balance. As a result, lenders seldom offer these loans. This makes financing the purchase of low-cost homes a challenge, particularly in the neighborhoods where low-income households and households of color tend to live. The difficulty of acquiring small-dollar mortgages also limits owners' ability to tap their home equity or secure loans to finance home maintenance.

THE OUTLOOK

Both the national homeownership rate and the number of homeowner households continued to rise in early 2021, boosted by low interest rates and steady gains in savings among many younger renters. The aging of the population also helped by lifting the number of households in age groups with traditionally higher homeownership rates. Today's strong demand for homeownership is thus

being driven by households that put off purchases last year because of the pandemic, those who originally planned to buy this year, and those who sped up their homebuying plans because of today's favorable interest rates and concerns about further price increases.

A significant rise in interest rates could, however, temper the surge in housing demand. And as the pandemic subsides and the economy continues to recover, homeowners may feel more comfortable putting their homes on the market, which would also help to slow the pace of price appreciation. Still, high prevailing housing prices—and therefore high downpayment requirements—prevent low- and middle-income households from buying homes in many markets, particularly on the coasts. And without explicit policies designed to help close homeownership gaps, wealth disparities between households of color and white households, as well as between renters and homeowners, will remain large.

The Biden Administration has proposed new programs that would address many of the challenges present in homeownership markets. On the supply side, the proposal includes building 500,000 affordable homes for low- and middle-income buyers. The Administration is also asking Congress to authorize a grant program that would provide funding to jurisdictions that eliminate exclusionary zoning. And on the demand side, passage of any of a number of new proposals to provide downpayment assistance to socially disadvantaged buyers would potentially bring millions of low-income households and households of color into homeownership.

More immediately, it is vital that policymakers take steps to ensure mortgage borrowers that suffered financial setbacks during the pandemic are able to stave off the loss of their homes. Indeed, 2.3 million owners are still in forbearance programs and will be under threat of foreclosure when the federal moratorium expires. Funding provided by the American Rescue Plan is available to help these struggling homeowners, but it is unclear whether this assistance will be large enough or timely enough to meet the need.

Millions of renter households were still behind on their housing payments in the first quarter of 2021. Still, rental demand in prime urban areas was already recovering from a jump in vacancy rates earlier in the pandemic. Multifamily housing starts also bounced back from the second-quarter slowdown. But returns to rental property owners took a hit from increases in vacancy rates and operating costs, and mom-and-pop landlords were feeling the pinch of lower rent collections. Despite the recent growth in new multifamily construction, much of the nation's rental stock is older and in need of maintenance and repairs.

SHORTFALL IN RENTAL PAYMENTS

The economic shutdown beginning in March 2020 left millions of renter households out of work. The Household Pulse Surveys show that more than half of renter households (51 percent) had lost employment income due to the pandemic by late March 2021. Low-income renters and households of color were especially likely to be in financial distress.

As a result of these income losses, large shares of renter households were behind on their housing payments in early 2021. Although down from a peak share of 19 percent in early January, one in seven renters was still in arrears in late March and at risk of being forced from their homes. Again, low-income renters and households of color were most likely to be behind on their housing payments, as were tenants of rental properties owned by mom-and-pop landlords.

Indeed, an Avail survey found that more than 27 percent of non-institutional rental property owners had tenants who did not or could not pay rent in September 2020. In a follow-up survey in February 2021, nearly two-thirds of these landlords (61 percent) reported at least \$5,000 in lost rental income during the pandemic. The Household Pulse Surveys suggest that the shortfalls for owners of smaller properties will continue, with 18 percent of renters of single-family homes and 17 percent of renters in buildings with 2–4 units reporting they were behind on their payments in the first quarter of 2021.

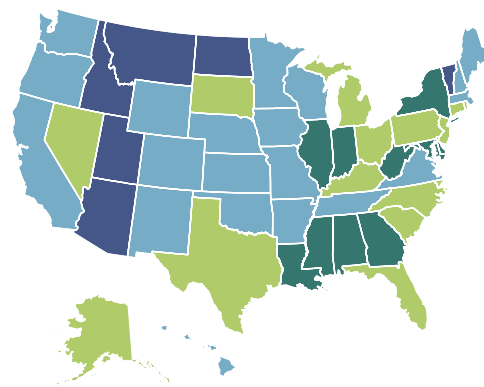
The financial pressures on renters vary considerably by state (**Figure 24**). Households in arrears on rent were primarily in the South. Mississippi was at the top of the list, with 27 percent behind on rent, followed by Delaware, Louisiana, Alabama, and Georgia. Most of these states have lower-than-average median incomes as well as higher-than-average shares of Black renter households, a group that was especially likely to have lost income during the pandemic.

FIGURE 24

More than a Fifth of Households in Several States Struggled to Pay Rent in Early 2021

Share of Renters (Percent)

- Under 12
- 12–15
- 16–19
- 20 and Over



Note: Households behind on rent reported that they were not caught up at the time of survey.
Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, January–March 2021.

Many of the states with the smallest shares of renters behind on housing payments were in the West and Upper Midwest, where housing cost burden rates are relatively low and the local economies are less dependent on service industries. The share of renters behind on rent was just 10 percent in Idaho and under 12 percent in Montana, North Dakota, and Utah.

In four of the 15 metros tracked by the Household Pulse Survey (Chicago, Houston, New York, and Philadelphia), the shares of households in arrears on rent were at or above 20 percent. Phoenix had the smallest share, at 11 percent. Several high-cost markets—including Boston, San Francisco, Seattle, and Washington, DC—also had relatively low shares of households behind on payments, largely because the majority of renters in these metros have relatively high incomes.

MODERATION IN RENTAL DEMAND AMID UPTURN IN SUPPLY

The pandemic came on the heels of a nationwide slowdown in renter household growth. After increasing by nearly 850,000 per year from 2004 to 2016, the number of renter households has since remained essentially flat. Indeed, the latest Housing Vacancy Survey put the total number of renter households at 43.4 million in the first quarter of 2021, just shy of the 43.5 million recorded in 2016.

After the pandemic took hold in early 2020, rental demand fell sharply. Annualized growth in the number of occupied apartments dropped from 333,000 units in the first quarter to 176,000 units in the second quarter. The decline was especially large in markets heavily affected by the pandemic, such as New York City and San Francisco.

But multifamily construction, which had been closely tracking new rental demand, continued at a brisk pace in 2020 despite a slowdown early in the pandemic. After falling to a 312,000 unit annual rate in the second quarter, multifamily starts rebounded quickly and ended the year at a total of 389,000 units, not far from the 2019 level. Completions also slowed briefly in the second quarter of 2020 but recovered quickly, climbing to 375,000 units for the year—the highest annual total since 1989.

Completions of professionally managed apartment units also rose throughout 2020, climbing from 296,000 units at an annual rate in the first quarter to 341,000 in the fourth quarter. The pace of completions picked up even further in the first three months of 2021, increasing to a 353,000 unit annual rate on average. Although net new apartment leases were also back up to a 316,000 unit annual rate, apartment completions far outpaced growth in rental occupancy (**Figure 25**). As a result, the national vacancy rate for professionally managed multifamily rentals increased from 6.7 percent in early 2020 to 6.9 percent in early 2021.

DIVERGING TRENDS IN RENTAL SUBMARKETS

Much of the overall increase in vacancy rates reflects conditions in prime urban markets, particularly at the high end. The rate for professionally managed buildings jumped from 7.2 percent to 10.0 percent over the course of 2020, before edging back down to 9.6 percent early this year (**Figure 26**). Vacancy rates in other urban markets rose more modestly, from 6.0 percent in the first quarter of 2020 to 6.4 percent in the first quarter of 2021.

Meanwhile, rental vacancies in suburban areas fell. Following four consecutive quarters of increases, the vacancy rate in prime suburban submarkets declined from 7.2 percent in early 2020 to 6.0 percent in early 2021. Rates in suburban markets outside of prime areas dipped as well, from 6.8 percent to 6.3 percent. The tightening of suburban markets may reflect a move of some urban renters to less expensive locations after the pandemic forced many commuters to work from home.

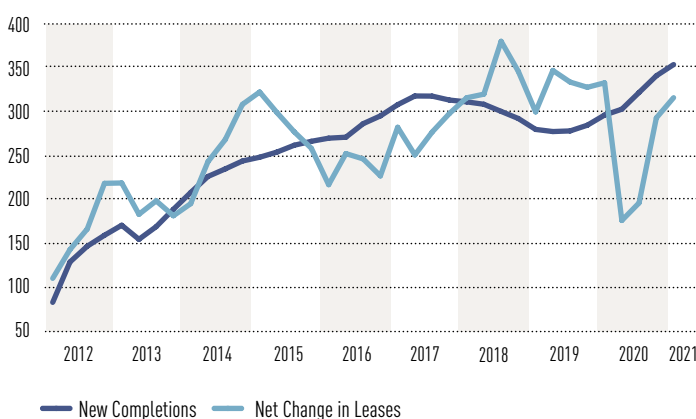
Trends in rental demand also varied by quality segment. According to CoStar data, vacancy rates in higher-quality (4 & 5 star) apartments soared to 10.5 percent in the fourth quarter of 2020, before retreating to 9.9 percent in early 2021. In contrast, the market for lower-quality (1 & 2 star) apartments remained especially tight, with a vacancy rate of just 5.2 percent in the first quarter of 2021. The vacancy rate for moderate-quality (3 star) apartments was nearly as low at 5.6 percent.

At the metro level, first-quarter 2021 vacancy rates were up year over year in about a third (48) of the 150 markets tracked by RealPage. The sharpest increases were primarily in high-cost markets such as San Francisco (up 3.0 percentage points), San Jose (up

FIGURE 25

Additions to the Rental Supply Ramped Up During the Pandemic Even as Lease Rates Fell

Units in Professionally Managed Properties (Thousands)

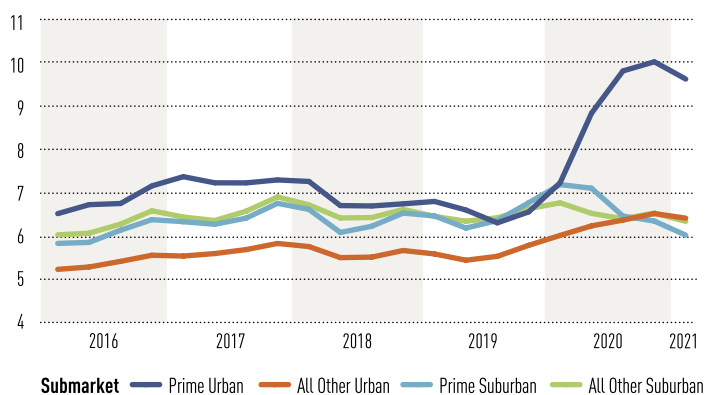


Note: Data are four-quarter rolling averages for professionally managed apartment properties.
Source: JCHS tabulations of RealPage data.

FIGURE 26

Vacancy Rates Soared in High-Rent Urban Areas Last Year, But Fell Steadily in Prime Suburban Markets

Vacancy Rate (Percent)



Notes: Urban/suburban areas are defined based on density in the 54 largest markets that CoStar tracks. Prime submarkets are those with the highest rents.
Source: JCHS tabulations of CoStar data.

2.6 percentage points), and New York (up 2.3 percentage points). At the same time, vacancy rates fell in 101 metros, with especially large declines in Riverside (down 1.9 percentage points) and Virginia Beach (down 1.3 percentage points).

SLOWDOWN IN RENT GROWTH

With vacancy rates moderating, rents followed suit with only modest gains in early 2021. The annual change in the Consumer Price Index for rent of primary residence—the broadest and most stable measure of rents—dropped from a high of 3.8 percent in March 2020 to just 2.5 percent in April 2021. This was the smallest annual increase in any month since 2012, although still substantially larger than the 1.2 percent rise in prices for all other items.

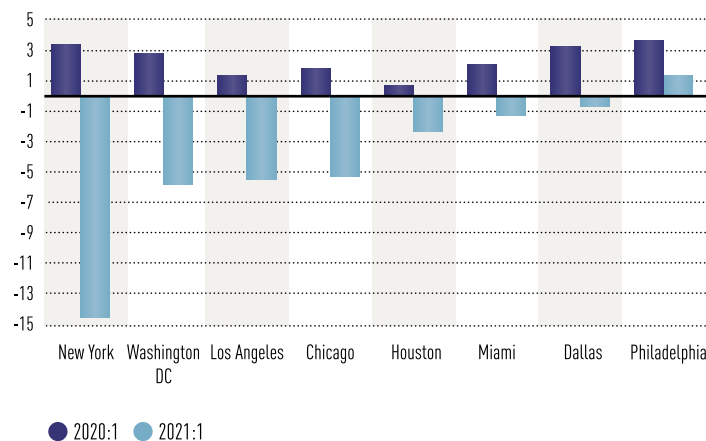
After slowing early in the pandemic, rent increases for single-family homes picked up from 3.0 percent in March 2020 to 4.4 percent in March 2021. Rents for units in professionally managed buildings also resumed their rise in early 2021, up 1.3 percent year over year nationwide after modest declines in much of 2020. Indeed, after averaging 2.7 percent annual increases in 2019, growth in rents in this segment plummeted to 1.4 percent in the first quarter of 2020 and -0.2 percent in the second, and then remained in negative territory throughout the rest of the year.

Rents in the higher-quality segment started to rebound as well, recovering from a 1.9 percent year-over-year decline in the fourth quarter of 2020 to a 0.8 percent gain in the first quarter of 2021. At the same time, rent increases for moderate-quality apartments—

FIGURE 27

Rents in the Nation's Eight Largest Markets Were Down Sharply in Early 2021

Year-over-Year Change in Rents (Percent)



Note: Rent changes are for the eight largest metro areas by population in 2019.
Source: JCHS tabulations of RealPage data.

which slowed during the pandemic but remained positive through 2020—accelerated from 1.5 percent in the fourth quarter to 3.0 percent in the first quarter of this year. Rent growth for lower-quality apartments was essentially flat, edging up from 1.7 percent in the fourth quarter to 1.8 percent in the first quarter of 2021.

However, first-quarter rents were still declining in 25 of the 150 metros tracked by RealPage, including seven of the nation's eight largest metros (**Figure 27**). Of this group, New York City posted the biggest drop, with rent growth plummeting from a 3.4 percent year-over-year increase in early 2020 to a 14.6 percent decline in early 2021. Rents also fell by more than 5.0 percent in Washington, DC (-5.8 percent), Los Angeles (-5.5 percent), and Chicago (-5.3 percent), all high-cost markets with economies that were especially hard hit by the shutdowns. Philadelphia was the only large metro with positive rent growth although there, too, the 1.4 percent increase was significantly smaller than a year earlier.

RENTAL PROPERTY PRICES HOLDING UP

Despite rising vacancy rates and slowing rent growth, apartment property prices were up a relatively strong 7.1 percent year over year in March 2021, according to Real Capital Analytics. Still, the increase was substantially smaller than the 10.2 percent gain a year earlier. Indeed, apart from other months in 2020, this was the smallest gain in apartment property prices since 2011.

Low interest rates encouraged a round of refinancing and helped to push up the volume of mortgage debt on multifamily properties.

Multifamily mortgage debt reached \$1.7 trillion in the fourth quarter of 2020, a 1.5 percent increase from the fourth quarter of 2019. Holdings in GSE portfolios and mortgage-backed securities rose the most, up 13 percent in 2020.

Although overall mortgage debt remained on the increase, the pace of growth slowed. Multifamily mortgage originations in the first quarter of 2021 were 5 percent below the year-earlier level, with lower transaction volumes more than offsetting the strong demand for refinancing. CoStar data indicate that year-over-year growth in transaction volumes in the professionally managed market sank from a 7.5 percent increase in the first quarter of 2020 to a 71.6 percent drop in the second quarter. By the first quarter of 2021, year-over-year transaction volumes were recovering but still down 37.5 percent.

Lower returns, in combination with rising property prices, may have dampened investor interest in multifamily properties. Indeed, rising vacancy rates, declining incomes, and increased operating costs pushed rental property returns deeply into negative territory last year. The National Council of Real Estate Investment Fiduciaries reports that annualized declines in net operating incomes accelerated from 1.5 percent in the second quarter to 10.3 percent in the third and to 17.2 percent in the fourth—the largest drop since 1987. By the first quarter of 2021, net operating income was down some 14.0 percent from a year earlier.

Pandemic-related increases in operating expenses were partially to blame, given the costs of additional cleaning time and equipment, personal protective equipment for staff, and addressing greater wear and tear on the units from tenants spending so much time at home. According to a September 2020 survey by the National Apartment Association, a fifth of property owners said that their expenses had risen at least 50 percent due to the pandemic, and another fifth said that expenses were up at least 25 percent. Nearly two-thirds of respondents were also considering COVID-related capital investments, primarily to allow for social distancing in common areas.

Despite the weakness in returns, though, multifamily mortgage delinquencies increased little during the pandemic. The Mortgage Bankers Association found that only 0.7 percent of the balance of multifamily loans were 60 or more days past due as of April 2021—only slightly higher than the 0.2 percent share that prevailed in April 2020 at the onset of the pandemic. Still, individual property owners, who typically own single-family rentals or small multifamily buildings, may be particularly at risk of delinquency. For these landlords, having only a single tenant fall behind on rent means a significant loss of income. Individual property owners are also less likely than institutional investors to have sufficient cash flow to cover any shortfalls in rent collections.

LARGE BUILDINGS STILL DOMINATING CONSTRUCTION

In the years leading up to the pandemic, multifamily rental construction was increasingly concentrated in larger buildings. As construction rebounded from the Great Recession, the share of new multifamily completions of buildings with at least 50 apartments more than doubled from 30 percent in 2011 to a peak of 62 percent in 2018. Shares remained elevated during the pandemic, with fully 56 percent of newly completed rental units in 2020 located in buildings with 50 or more units.

Although most newly built rental housing still consists of multifamily units, the number of single-family homes built specifically for the rental market has also increased over the past decade. While accounting for just 12 percent of total rental construction last year, starts of single-family rentals were at a record high of 50,000 units, up from just 23,000 in 2011. The sharp uptick in demand for larger rentals in suburban locations during the pandemic may spur even more construction of this type of rental housing in the coming years.

Newer single-family rentals are typically more spacious than newer multifamily rentals, with 77 percent having three or more bedrooms compared with just 14 percent in newer multifamily units. Accordingly, households living in newer single-family rentals are more likely to be married couples (46 percent vs. 23 percent) and include children (39 percent vs. 14 percent). Tenants of single-family rentals also have a higher median income (\$77,000) than renters overall (\$42,000). Indeed, 38 percent earn more than \$100,000, compared with just 15 percent of all renters.

BACKLOG OF MAINTENANCE NEEDS

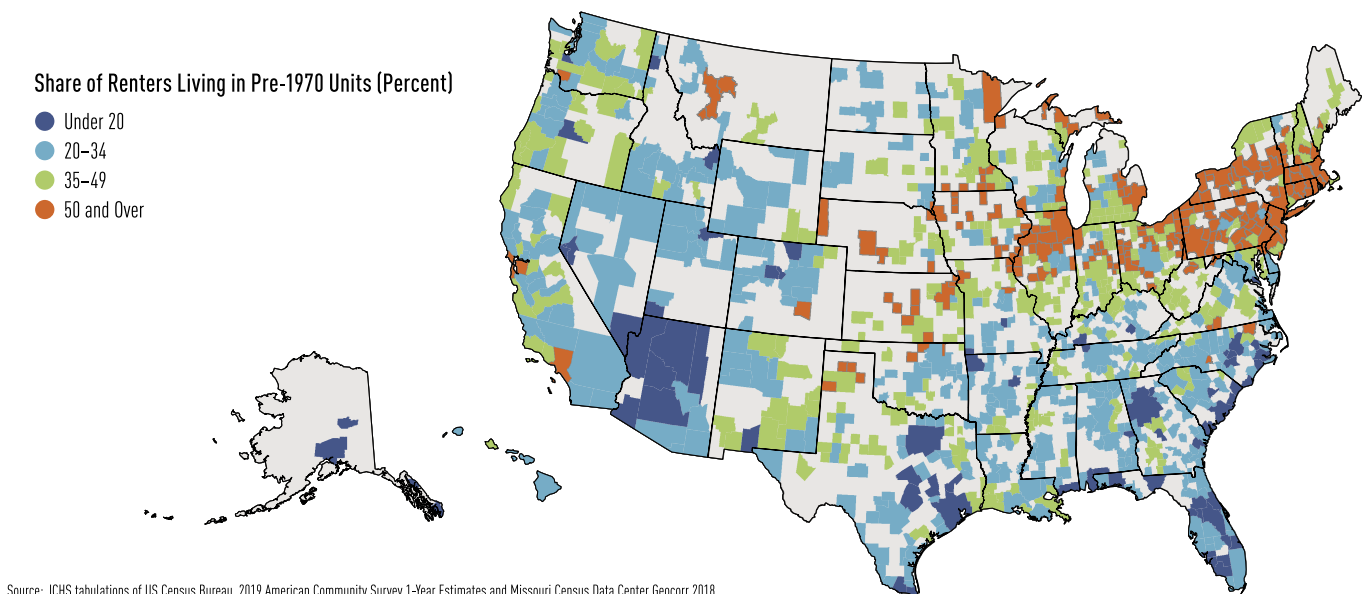
Despite the recent strength of multifamily construction, the rental stock is aging and many units are in disrepair. In 2019, some 39 percent of renter households (17 million) lived in housing built before 1970. These older units are more likely to have structural deficiencies or pose health hazards than newer units. They are also less energy efficient, less resilient to the impacts of climate change, and less likely to have accessibility features.

Much of the aging rental stock is concentrated in the Northeast, where more than 60 percent of renter households live in units that are at least 50 years old (**Figure 28**). The Midwest has the next-highest share of renter households living in older units, at 45 percent. The shares of renters that occupy this older housing are significantly lower in the South (27 percent) and West (34 percent).

A 2019 analysis by the Federal Reserve Bank of Philadelphia and PolicyMap estimated the aggregate cost of addressing reported rental housing deficiencies at \$45 billion, with median repair needs of \$1,355 per unit. The findings suggest that maintenance needs

FIGURE 28

In Parts of the Northeast and Midwest, More than Half of Renter Households Live in Housing Built Before 1970



were most acute for, but not limited to, older properties occupied by lower-income households.

Indeed, housing quality is a particular challenge for the approximately 970,000 households living in public housing. The National Association of Housing and Redevelopment Officials estimated that the backlog of capital funding needed to address deficiencies in the stock of roughly one million units was \$70 billion in 2019 and accruing at \$3.4 billion per year.

THE OUTLOOK

When the shutdown began in March 2020, rental demand dropped sharply in prime urban markets, particularly in high-cost metros. Suddenly freed from having to commute to work, many renters sought out homes in the suburbs of large metro areas and in smaller markets where they could pay lower rents and have more private space. But by early 2021, recovery in urban rental demand was evident in most markets, with vacancy rates down and rents back on the increase.

In the near term, many households are still experiencing the direct financial fallout of the pandemic. Millions of renters are still behind on their rent payments and on the brink of eviction. Their missed payments also put financial pressure on property owners, particularly mom-and-pop owners of small rental properties with little cushion against a shortfall in rent collections. While the federal government approved substantial aid for renters in both December and March, it remains to be seen whether this assistance will reach those in need before the federal eviction moratorium ends.

The longer-term impacts of the pandemic on the location of rental demand are unclear. With the vaccine rollout and offices reopening, the public health concerns that drove some renter households out of cities are subsiding. At the same time, though, a change in employment practices allowing regular work from home could encourage more renters to move to less expensive suburban and exurban locations. The widespread income losses over the past year could also push more renter households toward lower-cost markets.

6 HOUSING CHALLENGES

The pandemic has left millions of households deeper in financial distress. Low-income households are especially likely to have lost wages and fallen behind on housing payments. Although the crisis prompted an outpouring of government assistance, this support does not begin to address longstanding issues of housing affordability. Meanwhile, many higher-income households were largely unscathed by the financial impacts of the pandemic, leaving the country even more divided between haves and have-nots. Adding to the nation's housing challenges, 2020 brought an unprecedented number of disasters that damaged thousands of homes and displaced residents.

DISPARATE IMPACTS OF THE PANDEMIC

Although widespread, the financial hardships from the pandemic have fallen largely on low-income households, and particularly households of color. The Census Bureau's Household Pulse Surveys found that 55 percent of all low-income renters in early 2021 reported having lost employment income since the start of the pandemic, along with 46 percent of low-income homeowners.

But within this income group (earning less than \$25,000 in 2019), the shares ranged widely by race and ethnicity. Some 67 percent of Hispanic, 58 percent of Black, and 53 percent of Asian renters reported losing income since the start of the pandemic, compared with 49 percent of white renters. Among low-income homeowners, Hispanic households were again the most likely to have lost income (57 percent), followed by Asian (55 percent), Black (50 percent), and white (41 percent) households.

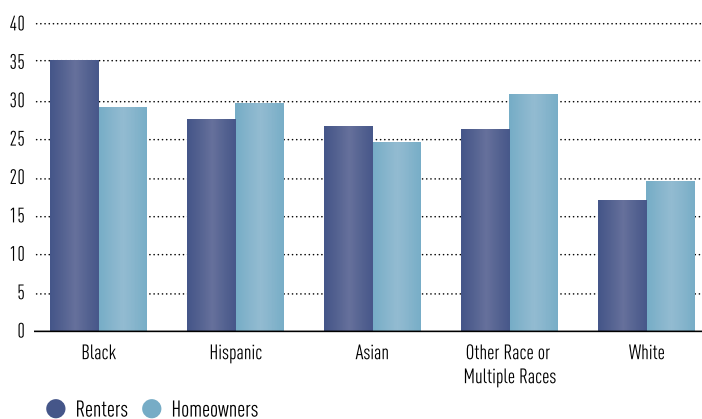
These income losses left nearly a quarter of both low-income renters and homeowners behind on housing payments at the start of 2021. Again, though, the racial disparities were pronounced (**Figure 29**). More than a third of low-income Black renter households were behind on rent early this year, along with more than a quarter of Hispanic and Asian renters. The share of low-income white renters was significantly lower at 17 percent. These shares were similar for low-income homeowners, with just under a third of Black and Hispanic households and a quarter of Asian households behind on mortgage payments in early 2021, compared with a fifth of white households.

Falling behind on housing payments was not unique to those with the lowest incomes, however. In the first quarter of 2021, 19 percent of those earning \$25,000–\$34,999, 16 percent of those earning \$35,000–\$44,999, and 11 percent of those earning \$50,000–\$74,999 also reported being behind on housing payments. The share for house-

FIGURE 29

Disproportionately Large Shares of Low-Income Households of Color Were Unable to Cover Their Housing Costs in Early 2021

Share of Low-Income Households Behind on Payments (Percent)



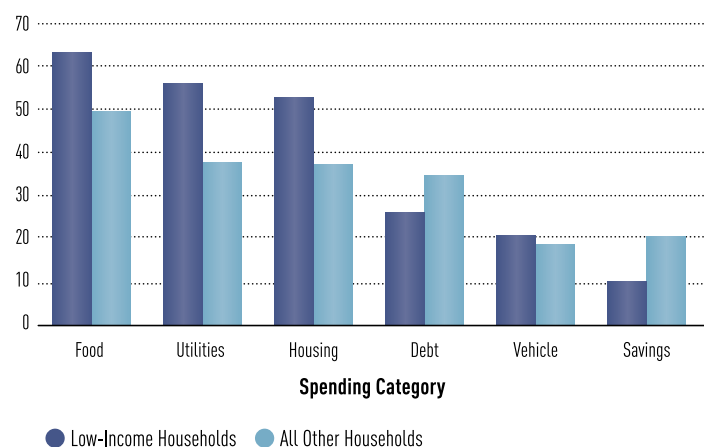
Notes: Low-income households earned less than \$25,000 in 2019. Black, white, and Asian households are non-Hispanic. Hispanic households may be of any race.

Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, January–March 2021.

FIGURE 30

Most Low-Income Households Spent Their Economic Impact Payments on Essentials Like Food, Utilities, and Housing

Share of Households Reporting EIP Expenditures in Each Category (Percent)



Notes: Low-income households earned less than \$25,000 in 2019. Data only include households that received an economic impact payment during the seven days prior to the survey. Responses are not mutually exclusive. Debt includes credit card debt, student loans, and other liabilities. Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, January–March 2021.

holds that earned at least \$75,000 was just 6 percent, or four times lower than that of the lowest-income group.

Moreover, the shares of households behind on housing payments do not fully capture the dire circumstances of many households. A Joint Center and Urban Institute analysis of surveys conducted in late 2020 and early 2021 found that between 25 percent and 40 percent of renter households had used savings to cover their housing payments during the pandemic. Roughly a quarter had depleted those savings and another quarter had borrowed money from family or friends to pay for their housing.

These findings are unsurprising given how low savings were before the pandemic. Survey of Consumer Finances data show that the median cash savings of renter households was just \$1,400 in 2019, compared with \$10,100 for homeowners. Fully a third of renters had less than \$500 in cash, along with a tenth of homeowners. This suggests that many renters began this year with few resources in reserve or even deeper in debt than a year earlier.

Eviction fears were running high in early 2021. According to a January survey by the Philadelphia Federal Reserve Bank's Consumer Finance Institute, 4 percent of renters had received eviction warnings, while 17 percent were concerned about being evicted even though their landlords had not issued warnings. Respondents to the Household Pulse Survey in the first quarter of 2021 echo these concerns, with 17 percent of renters who were behind on rent believing that evic-

tion was very likely in the upcoming two months. A smaller but still concerning 5 percent of homeowners who were behind on mortgage payments expected foreclosure within the next two months.

POLICY RESPONSES TO KEEP PEOPLE IN THEIR HOMES

Policymakers have enacted several measures to alleviate some of the financial pressures on struggling households. The CARES Act of March 2020 was the first major legislation during the pandemic to provide direct payments to many individuals and expanded benefits to unemployed workers. Projections made by the Urban Institute in July 2020 suggested that these interventions could reduce the national poverty rate in 2020 from 12.4 percent to 9.2 percent. The Consolidated Appropriations Act enacted in December 2020 followed up with additional relief that included \$25 billion in rental assistance, \$600 in direct stimulus payments, and extensions to both the expanded unemployment benefits and the CDC eviction moratorium. The American Rescue Plan of March 2021 delivered yet more aid, including \$1,400 in direct payments to individuals, \$300 per month in extra unemployment benefits, \$10 billion in homeowner assistance, and another \$25 billion in rental assistance.

Households that received stimulus payments under the Consolidated Appropriations Act spent the money primarily on basic needs (**Figure 30**). More than 60 percent of low-income households spent at least part of their funds on food, 56 percent spent at least part on utilities, and 53 percent spent at least part on their rent or mortgage. Households with higher incomes, however, were more apt to put the money toward debt (35 percent vs. 26 percent of low-income households) and savings (20 percent vs. 10 percent).

Recipients of federal rental assistance could use the funds to cover utility bills as well as housing costs. The American Rescue Plan included additional assistance with utility payments by providing new funding for the Low Income Home Energy Assistance Program (\$4.5 billion) and the Low-Income Household Drinking Water and Wastewater Emergency Assistance Program (\$500 million). For their part, many states instituted residential utility shut-off protections. The National Association of Regulatory Utility Commissioners reported that 36 states had enacted moratoriums on utility shut-offs during the pandemic, although only 12 states still provided these protections as of February. However, some states that did not impose a COVID-related moratorium on shut-offs had their usual wintertime moratoriums in place. The National Energy Assistance Directors' Association projected that about 57 percent of the US population was covered by either type of moratorium at the end of February 2021.

State and local governments also provided aid to renters and played the critical role of distributing federal assistance. According to a January 2021 report from the National Low Income Housing

Coalition, the Furman Center, and the University of Pennsylvania, 68 state and 370 local emergency rental assistance programs were created or expanded in response to COVID-19. But even with these quick responses on top of the large injection of federal funding, demand often outstripped the assistance available. Lessons learned from these early programs about leveraging local networks, simplifying and limiting application requirements for tenants and landlords, and providing direct assistance to lowest-income households should ensure more efficient distribution of American Rescue Plan funds.

The primary goal of all these government programs was to keep people safely in their homes. The CARES Act instituted a partial eviction moratorium from March 2020 to late July 2020, along with a foreclosure moratorium that was extended to June 2021. In September 2020, the CDC also instituted a nationwide eviction moratorium, which the Biden Administration extended to June 30, 2021. However, this moratorium was successfully challenged in the courts in May and is pending appeal. An analysis by the Government Accountability Office found that eviction filings were lower in 2020 than 2019 during these federal moratoriums, and filings were even lower in states that had their own moratoriums. As of May 1, 2021, 17 states and Washington, DC, still had eviction moratoriums in place.

However, programmatic challenges and a lack of public awareness about eviction moratoriums and the support available to at-risk renters undermined some of the effectiveness of these programs. A February 2021 survey conducted by the Urban Institute and the non-institutional landlord servicer Avail found that 84 percent of landlords knew about the CDC eviction moratorium's first extension, but just 47 percent of renters were also aware of this change. In addition, only 48 percent of landlords and 31 percent of renters were aware of the \$25 billion in rental assistance provided by the Consolidated Appropriations Act. This lack of awareness may reflect problems with digital access, language barriers, and comprehension of different program requirements, as well as lack of outreach.

The American Rescue Plan also included an additional \$5 billion for homelessness prevention, which could take the form of rental assistance, affordable housing development, and acquisition of non-congregate shelters. When the pandemic began, many local and state governments established non-congregate shelters by redeploying vacant sites like hotels that would allow social distancing. President Biden signed an executive order in January 2021 directing the Federal Emergency Management Agency to cover 100 percent of state and local costs for these shelters until September 2021. The state governments of Oregon and California went a step further by making some of their hotel conversions permanent for use as emergency shelters or affordable housing after the pandemic. The latest infusion of federal funding may make this possible for more states.

AFFORDABILITY CHALLENGES BEFORE THE PANDEMIC

Many households that fell behind on their housing payments in 2020 were already cost burdened and living on thin margins. In fact, nearly half of all renter households (20.4 million) and a fifth of homeowner households (16.7 million) spent more than 30 percent of their incomes on housing in 2019. Of these 37.1 million households, 17.6 million spent more than 50 percent of their incomes on housing.

Households with low incomes were the most likely to face severe cost burdens (**Figure 31**). More than three-fifths of renters and nearly half of homeowners earning less than \$25,000 were severely cost burdened in 2019, along with one in six renters and one in eight homeowners earning \$25,000–49,999. In contrast, less than 2 percent of all households earning \$50,000 or more had severe burdens.

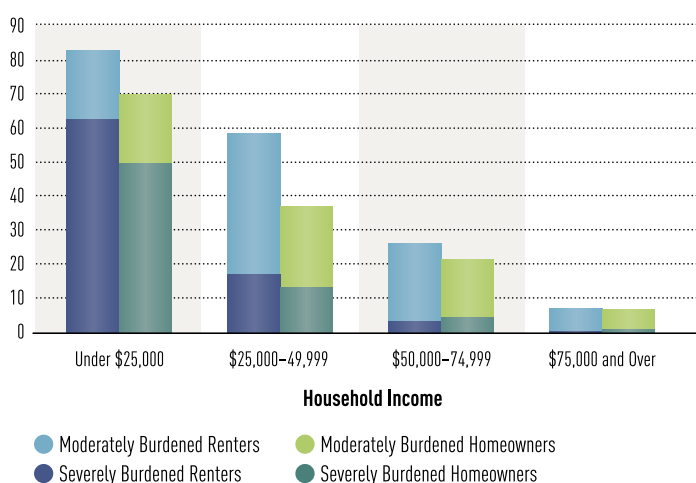
Within the low-income group, cost burden rates were disproportionately high among households of color. While 82 percent of all renters earning less than \$25,000 were cost burdened in 2019, the shares for Hispanic (86 percent), Black (83 percent), and Asian (84 percent) households all exceeded the share for white households (80 percent). In addition, some 69 percent of low-income homeowners were cost burdened, but the shares for Hispanic (72 percent), Black (74 percent), and Asian (81 percent) households were also higher than for white households (68 percent).

The prevalence of cost burdens reflects the chronic lack of affordable housing for households of modest means, particularly those with

FIGURE 31

A Large Majority of Low-Income Renters Were Severely Cost Burdened Even Before the Pandemic

Share of Households (Percent)



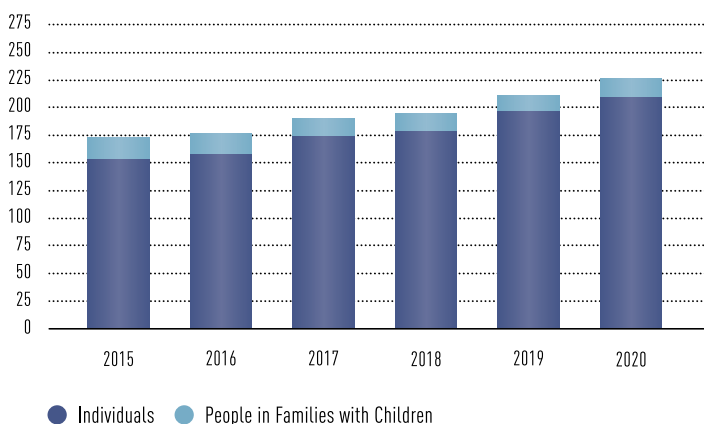
Notes: Cost-burdened (severely cost-burdened) households pay more than 30% (more than 50%) of income for housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens.

Source: JCHS tabulations of US Census Bureau, 2019 American Community Survey 1-Year Estimates.

FIGURE 32

The Number of People Experiencing Unsheltered Homelessness Climbed Again in 2020

People Experiencing Unsheltered Homelessness (Thousands)



Notes: Data are point-in-time estimates for late January in each year. People experiencing unsheltered homelessness are defined as sleeping in places not ordinarily used or meant for sleeping, including streets, parks, and vehicles. People in families with children are defined as members of a household with at least one adult and one child experiencing homelessness.
Source: JCHS tabulations of US Department of Housing and Urban Development, Annual Homeless Assessment Report Point-in-Time Estimates.

extremely low incomes (earning less than 30 percent of area median income). According to the National Low Income Housing Coalition's annual gap report, there were only 37 affordable and available homes for every 100 extremely low-income renter households nationwide in 2019. Supplies of affordable and available homes were tightest in several Western states, including Nevada (20 for every 100 extremely low-income renters), California (24), and Oregon (25). The metro areas with the most acute shortages were Las Vegas (16 per 100 extremely low-income renters), Houston (19), and Los Angeles (20). It is no coincidence that these states and metro areas have especially high cost-burden rates.

Another sign that the affordability crisis worsened even before the pandemic was an increase in homelessness. According to HUD's point-in-time estimates, the total number of people experiencing homelessness rose from 568,000 in January 2019 to 580,000 in January 2020, driven entirely by an increase in the unsheltered population. The number of people sleeping on the streets or in parks or vehicles was up by 15,000, more than offsetting the 2,000-person reduction in the number of people sleeping in homeless shelters. Most of the rise in people experiencing unsheltered homelessness was among individuals (**Figure 32**). More than half of the total increase in unsheltered homelessness occurred in California (up 5,000), Texas (up 2,000), and Washington (up 1,200).

Point-in-time counts are taken on just one night and do not include some forms of homelessness such as people doubling up with family

FIGURE 33

Households Behind on Rent or Mortgage Payments Often Face Other Hardships as Well

Share of Households Facing Hardships by Housing Payment Status (Percent)

Hardship	Behind on Payments	Up-to-Date on Payments
Difficulty Paying Expenses in the Past Week	77	29
Symptoms of Depression or Anxiety	60	38
Moderate or Severe Food Insufficiency	37	8
Fair or Poor Health	35	19
No Work in Past Week Due to COVID	24	9
No Public/Private Health Insurance	21	8

Notes: Every hardship is showing data from the first quarter of 2021 except for Fair or Poor Health, which is from the fourth quarter of 2020. Data include both renters and homeowners.

Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, September 2020–March 2021.

or friends. As such, they seriously understate the number of people experiencing homelessness each year. Indeed, HUD estimated that 1.4 million people slept in homeless shelters at some point in 2018. The National Center for Education Statistics also reported that 1.35 million public school students experienced homelessness at some point during the 2016–2017 academic year. So far, there are no national statistics on homelessness rates since the start of the pandemic and many jurisdictions skipped the usual point-in-time counts in 2021 due to health concerns. As a result, it may be some time before the pandemic's impacts on this vulnerable population are clear.

CRITICAL LINKS BETWEEN HOUSING AND WELL-BEING

The pandemic has highlighted how vital affordable, good-quality, and well-connected housing is to health and well-being. Indeed, the Household Pulse Surveys in the first quarter of this year show a clear relationship between the stress of being behind on housing payments and the incidence of other hardships. For example, more than three-quarters of households that were unable to cover their rents or mortgages also struggled to pay other expenses (**Figure 33**). Some 60 percent of households in arrears experienced feelings of depression or anxiety, while 35 percent reported being in fair or poor health. Many of these households may have little recourse to get help with these health issues, with a fifth having no public or private health insurance.

Particularly worrisome is the 37 percent share of households behind on housing payments that experienced food insufficiency—more than four times the share of households that were up to date.

Food insecurity in fact became much more commonplace during the pandemic. Analysis by the Health Communication Research Laboratory of the 2-1-1 calls in 31 states found that there had been a 98 percent increase in calls about help buying food between October 2019 and October 2020, along with a 59 percent increase in calls about soup kitchens and a 44 percent increase in calls about food pantries.

Similarly, the Household Pulse Surveys indicated that 20 percent of all renters and 6 percent of all homeowners sometimes or often experienced food insufficiency in early 2021. The shares of low-income households were especially high. Some 28 percent of those earning less than \$25,000 reported food insufficiency, compared with 18 percent of households earning \$25,000–\$34,999 and 13 percent of households earning \$35,000–\$49,999. Here again, the racial and ethnic disparities are notable, with far larger shares of Hispanic and Black households experiencing food insufficiency (18–20 percent) than Asian and white households (6–8 percent).

Pandemic conditions also underscored the need for more supportive housing for the nation's aging population. Given that older adults have had the highest mortality rates from COVID-19, maintaining social distance and taking other precautions against infection are crucial to their safety. But the pandemic disrupted the care and support systems for this vulnerable age group, leading to greater social isolation and difficulties accessing food and medications. According to a recent Joint Center report, however, older adults living in service-enriched housing benefited from the help of on-site staff in meeting their needs. Expanding the availability of service coordinators to more properties would be an important step in supporting

the health and safety of older adults during the recovery from the pandemic as well as in more typical times.

Relatively low rates of internet and technology use compounded the hardships not only for older adults, but also for families with limited or no internet access. During the pandemic, the ability of parents to work at home and of children to keep up with school relied almost entirely on having an internet connection. But as American Community Survey data show, 13.4 million households (11 percent) were without internet access in 2019, while 19.5 million (16 percent) had access but lacked broadband. The shares were especially high in rural areas, where 3.1 million households (18 percent) had no internet access, and another 4.2 million (24 percent) had access but no broadband. With libraries and schools closed during the pandemic, these families had few options to access this key service.

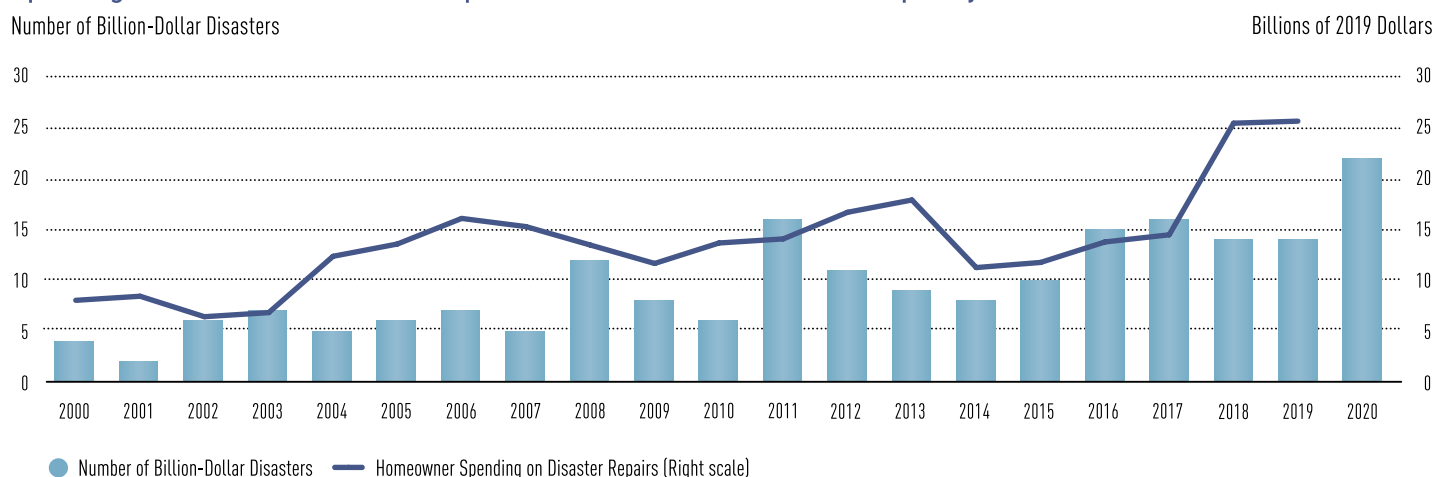
INCREASED RISKS TO HOUSEHOLDS FROM CLIMATE CHANGE

On top of the devastating effects of the pandemic, the number of major disasters hit a new high last year. There were 22 distinct billion-dollar disasters in 2020, up from the previous high of 16 in 2011 and 2017. The combined cost of last year's disasters was \$95 billion, making it the fourth-costliest year since NOAA started tracking major disasters in the early 1980s. The February storm that swept through Texas and many other states was the first billion-dollar disaster of 2021 and the costliest winter storm on record, with damages estimated at more than \$10 billion.

The frequency and severity of disasters have increased for several decades, spurred by climate change. On average in the 1980s, just

FIGURE 34

Spending on Homeowner Disaster Repairs Has Risen in Line with the Frequency of Severe Events



Notes: Billion-dollar disaster are adjusted to 2020 dollars using the CPI-U for All Items. The direct costs of disasters include physical damage to buildings, material assets, vehicles, infrastructure, and agriculture, as well as the costs of business interruption, wildfire suppression, and disaster restoration. Disaster repair expenditures are for homeowners only and are adjusted for inflation to 2019 dollars using the CPI-U for All Items. Disaster repair spending for 2013 uses Joint Center-adjusted weights. Sources: JCHS tabulations of NOAA, Billion-Dollar Weather and Climate Disasters; HUD, American Housing Surveys.

three billion-dollar disasters occurred each year, with costs of about \$18 billion in real terms. By the 2010s, however, the average number of events had quadrupled to 12 and average costs had soared to \$81 billion. For homeowners alone, real spending on disaster repairs climbed from \$8 billion in 2000 to \$14 billion in 2010 and to \$26 billion in 2019 (**Figure 34**). These increases have lifted the share of homeowner remodeling expenditures devoted to disaster repairs from 4 percent to 10 percent over the last two decades.

As severe weather becomes more common, it poses an ever-growing threat to homes across the country. The First Street Foundation estimated that 14.6 million properties were at substantial risk of flooding last year, some 5.9 million more than identified by the Federal Emergency Management Agency. By CoreLogic's count, 7.1 million single-family homes and 253,000 multifamily units were under threat from storm surges, with a total reconstruction cost of \$2.65 trillion. In assessing vulnerability to seven types of natural hazards, CoreLogic found that the states most at risk were California, Kansas, Nebraska, Oklahoma, and Texas. The analysis also identified multi-state hotspots around the Mississippi River, the Gulf Coast, and the Atlantic Coast.

Just as weather-related events pose increasingly devastating threats to the housing stock, they also pose increasingly severe risks to human health. Indeed, 2020 was the fifth-hottest year on record in the contiguous US, and all four of the previous hottest years occurred since 2012. Rising temperatures are hazardous to people living in homes without air conditioning, particularly older adults and young children. Smoke from wildfires is another serious hazard because it can infiltrate homes via poorly sealed windows, doors, and ventilation systems, degrading air quality and aggravating respiratory problems. In the case of flooding, the presence of mold can be dangerous to people with asthma and other acute conditions.

The pandemic highlighted another hazard related to housing quality, particularly in older homes. The CDC estimates that 24 million housing units contain significant amount of lead-based paint, a particularly toxic health threat to the young children living in 4 million of those homes. The need to quarantine during the pandemic increased the exposure of those children to this hazard while also preventing lead testing and mitigation efforts. Moreover, the children most likely to suffer the ill effects of prolonged lead exposure and reduced testing live in the same households most affected by the pandemic—those with low incomes and households of color.

THE OUTLOOK

Now that vaccine distribution has accelerated, the end of the pandemic in the United States may finally be in sight. While massive government assistance has provided temporary lifelines to many struggling households, the magnitude of the financial damage from

the economic shutdown, on top of the ongoing affordability crisis, has expanded the already long list of national housing challenges. Most immediately, the impending end to government moratoriums could set off a wave of evictions and foreclosures unless federal assistance from the most recent relief package is implemented quickly and effectively.

This potential crisis is clear evidence of the importance of rental assistance in keeping economically vulnerable households affordably and stably housed. At last count in 2017, 5.2 million households earning less than 50 percent of area median income were living in subsidized rental housing. Over the past year, this support has been vital in preventing these households from falling behind on rent while also ensuring the income of property owners. At the same time, 12.9 million renters with similarly low incomes were on their own to weather the pandemic's challenges, with the vast majority already facing cost burdens or living in inadequate housing. To remedy the tremendous gap between assistance and need, the Biden Administration has proposed a significant expansion in both the housing voucher and affordable housing production programs.

The events of the past year have also reinforced the many racial and ethnic disparities in American society, with unequal access to homeownership among the most persistent. Indeed, the Black-white gap in homeownership rates is nearly 30 percentage points and the Hispanic-white gap is not much smaller at 24 percentage points. The inability to qualify for financing—whether because of low incomes, insufficient savings, or troubled credit histories—means that these households miss out on a critical wealth-building opportunity. Federal support for downpayment assistance programs targeting people of color would be an important step toward closing these gaps.

Meanwhile, more fortunate households with stable incomes have been on a homebuying spree that has left for-sale inventories at record lows. Although the supply of existing homes on the market may increase as the pandemic subsides, the longer-term solution to the housing shortage is to ease the constraints on residential development. Policymakers can address some of these barriers, such as the spiraling costs of materials and the shrinking supply of construction labor, with measures aimed at removing supply chain frictions and supporting workforce development, including immigration reform.

But perhaps the chief obstacles to housing production are restrictive land use regulations and complex, time-consuming approval processes that push up costs. Policymakers at all levels of government must work together to reduce these barriers so that homebuilders can begin to meet the demand for modestly priced homes in a broad range of communities. The Biden Administration's proposal to link funding for affordable housing to state and local regulatory efforts provides a good template for how the federal government can incentivize these reforms.

The following resources are available at www.jchs.harvard.edu/state-nations-housing

INTERACTIVE CHARTS

- Home Prices Are Skyrocketing in Most Markets
- The Negative Impacts of the Pandemic Are Uneven

INTERACTIVE MAPS

- Even Before the Pandemic, High Shares of Households Were Burdened by Housing Costs
- The Financial Pressures on Households Varied Considerably by State in Early 2021

DATA TABLES

- Housing Market Indicators: 1980–2020
- Housing Cost-Burdened Households by Tenure and Income: 2001, 2018 and 2019
- Cost-Burden Rates by Tenure and Income for States and Metro Areas: 2019
- Median Home Price to Median Income Ratios by Metro Area: 1990–2000
- Home Price Changes by Metro Area: 2019–2021
- Change in Median Land Prices by Metro Area: 2012–2019

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